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Inter-Regional, As Enlarged Unit, Will Have Parker At Top

Beckwith And Doremus Are Assistant General Managers; Feb. 1 Is Effective Date

The executive committee of Inter-Regional Insurance Conference has appointed Kent H. Parker general manager. He will assume his duties as chief operating officer of IRIC Feb. 1. Royal M. Beckwith, manager of the present IRIC, and Frederick W. Doremus, manager of Eastern Underwriters Assn., have been named assistant general managers of the newly enlarged organization.

Mr. Parker is manager of Western



R. M. Beckwith



Kent H. Parker

Actuarial Bureau, which he joined in 1931. He became assistant manager in 1941 and was appointed manager in 1953. He is a fire protection engineering graduate of Illinois Tech, and from 1941 on has served as the chairman of the fire protection engineering scholarship committee. He has served on technical committees of National Fire Protection Assn. and is active on the advisory engineering council of National Board, the advisory committee of Inter-Regional, and the fire council of Underwriters Laboratories. He was president of Winnetka, Ill., school board six years.

Beckwith's Career

Mr. Beckwith presently is manager of Inter-Regional. He was graduated from Illinois Tech in 1924 in fire protection engineering and subsequently was with Michigan Inspection Bureau till 1927, with Western Actuarial Bureau as assistant manager till 1941, with Eastern Underwriters Assn. as assistant manager till 1943, and with Insurance Executives Assn. till 1954.

Mr. Doremus, manager of Eastern Underwriters Assn., attended the University of Pennsylvania business school before joining American in 1913. He was in the eastern Pennsylvania field till 1924 when he became president of

America Fore Names Dekker President

Nicholas Dekker, formerly executive vice-president, has been elected



Nicholas Dekker



J. Victor Herd

president of America Fore companies. J. Victor Herd, who has been chairman and president for nearly three years, will continue as chairman and chief executive officer of the group.

Mr. Dekker has been with America Fore since 1916, beginning with Continental as a district boy in Chicago. After being promoted through various office positions, he became a special agent in Minnesota in 1921. He was later promoted to state agent and served in Kansas and Minnesota before being named executive assistant in the western department in 1948. In 1949 he was appointed an assistant secretary of America Fore fire companies, and in 1951 he was advanced to secretary and was transferred to the home office. In 1954 he was named vice-president in the Pacific department. He became vice-president of Fidelity & Casualty in 1955, and a year later was designated vice-president and manager of the Pacific department. He returned to the home office in 1957 as executive vice-president and a director of all America Fore companies.

Mr. Dekker is a past vice-president of Pacific Fire Rating Bureau, a past president of Idaho Surveying & Rating Bureau, and a past MLG of Minnesota Blue Goose. He is a director of America Fore Loyalty companies, a director and vice-president of Fire Companies Subsidiary Corp., and a director of Afco, Afco Time Payments Inc., Cafo Ltd., and General Adjustment Bureau, as well as a director at large of National Automobile Underwriters Assn.

Sylvania, an insurer owned by Hare & Chase specializing in auto finance business. In 1927, when the company was sold, he rejoined American in Pennsylvania. He went to the home office as assistant secretary in 1935, became secretary and then associate manager and manager of the western department, and in 1940 was elected vice-president at the home office. He became manager of EUA in 1947.

Annual Review Of Problems, Outlook In Reinsurance Field Begins On Page 6

Hockensmith New Ky. Commissioner

William T. Hockensmith was sworn in Saturday as Kentucky insurance commissioner replacing Cad P. Thurman. Mr. Hockensmith has had experience with the department beginning in 1950 when, for several years, he headed the state fire fund. He was deputy during the tenure of Syl L. Goebel. In recent years, Mr. Hockensmith has been with an agency at Frankfort.

When Bert Combs went in as governor, it was speculated at first that Mr. Thurman would be out of office. Mr. Thurman was one of four members of the cabinet who were not replaced but were kept on without being reappointed. It was erroneously reported last week that Mr. Thurman was reappointed.

American Plan Corp. Buys Eastern Casualty

American Plan Corp. has purchased 94% of the outstanding stock of Eastern Casualty from American Casualty.

American Plan Corp. will tender offers to purchase the remaining common and all the preferred stock of Eastern Casualty now outstanding.

American Plan Corp. specializes in consumer credit insurance for financial institutions. It was organized in 1947 to serve in a managerial capacity for auto finance PHD for several insurers. These managerial duties will be continued and there will be no change in representation.

N.J. Surplus Line Probe Prompts New Legislative Curbs

Broker Placed Business With Firm Having Less Than \$5 Assets In Bank

Commissioner Howell of New Jersey will make legislative proposals with regard to surplus lines business, following a two year inquiry into this field. Situations were uncovered, he said, where cover notes were issued, representing that insurance had been effected with named companies when apparently no coverage had been placed.

In the case of Wittington-Hall Ltd. of Newark, placement of surplus lines had been sought by persons without license to do so. The broker's license of Andrew Karas of Trenton, one of the principals, has been revoked by the department.

Investigation of Excess Enterprises of New Jersey and Excess Enterprises Inc., both controlled by Richard P. Crocker of Plainfield and located in Newark, disclosed a large number of cover notes where insurance was not placed with the companies listed.

Mr. Howell noted the recent liquidation of British Commercial which had insured a large number of New Jersey

(CONTINUED ON PAGE 38)



Discussing insurance and education at University of Wisconsin's Insurance Fellows dinner are, seated from left: I. J. Maurer, president Farmers Mutual of Madison; John E. Willard, dean of the graduate school, and T. A. Duckworth, secretary Employers Mutuals of Wausau. Standing are Ray Solomon, president of Insurance Fellows; Robert Walker, associate actuary Northwestern Mutual Life; Henry Scheig, actuary Aid Association for Lutherans; Prof. Thomas Wenck of the commerce school; John Muettterties, associate actuary Hardware Mutuals; and T. R. Cooper of Cuna Mutual. Insurance Fellows was organized to enable graduate students of insurance to become acquainted with insurance executives and their companies.

Reviews 1959 N. Y. WC Verdicts; Cites Cases Involving Emotions, Occupations

In a review of 1959 decisions under the New York workmen's compensation law, Joseph D. Edwards, New York attorney, said that there has been neither extension nor contraction of the statutes but a maturing of previously held concepts.

In his presentation at the annual meeting of Self Insurers Assn. in New York, he noted that the state courts have recently considered several heart claims in which an alleged emotional disturbance was advanced as the basis for compensability. These cases are important because they show the reluctance of courts to expand upon their original concepts of emotional disturbance and emotional injury established by them many years ago in the negligence law.

He referred to the case of Stang vs J. Pechman & Co. Mr. Stang was assistant to the president, and admittedly did no heavy work. It was claimed that on the day he suffered his heart attack, and for some days prior to that, the office had been busier than usual. It was also claimed in behalf of Mr. Stang's widow that he had been told certain invoices would have to be changed, and this disturbed him. There was evidence of a pre-existing arteriosclerosis. The decedent was pictured as nervous and excitable. Two physicians testified to the relationship between the emotional stress and pressure of the decedent's work and his coronary death. The appellate division, however, reversed an award of the workmen's compensation board. Despite the medical opinion on causal relationship, the court refused to consider this as a question of fact but rather went into the question of whether the degree of emotional stress claimed was such that a compensable accident could be spelled out.

Other Cases

The appellate division also dismissed an award for death benefits in the matter of Ruffolo vs Latin Quarter Cafe. The decedent had been employed as a wardrobe mistress for 11 years. She was sewing a zipper into a costume "in a hurry and under alleged tense circumstances, because it was essential to have the costume ready before the opening of the second show." It was claimed that the emotional stress and excitement caused a blood vessel in her brain to rupture, which caused her to black out upon completion of the work. There was medical evidence of causal relationship. But the court stated: "There is no evidence of any unusual physical exertion. The evidence falls short of establishing a definite identifiable industrial accident."

Mr. Edwards noted that in the case of Schechter vs State Fund, the court of appeals reversed the appellate division and reinstated an award. The claimant was a trial attorney for State Fund. During January and February, 1955, his work load increased to such an extent that he was compelled to spend all of his time in court. During that entire period he was in the office on but one day and then only for a few hours.

It was brought out that Mr. Schechter had to carry heavy brief cases and use the subways exclusively. He was required to descend and ascend stairways while carrying the brief cases. The court of appeals held that a heart case was compensable if it were the result of excessive strain in the course of usual work, even though there was

pre-existing pathology. The court consistently stressed the fact that not only was there a claim for emotional strain, but also for actual physical strain. The court concluded that this increased court work, with its attendant additional emotional and physical stresses, constituted unusual strain and exertion.

Two Heart Attacks

Another significant decision was made in Berger vs Bodner Bakery. Here several issues of major importance were concerned. Mr. Berger had suffered a compensable coronary collapse on Oct. 8, 1952. This was said to have resulted in a permanent partial disability classification. In August, 1955, he had a second attack which was claimed to be compensable but which was disallowed.

While the workmen's compensation board panel attached no compensability to the second coronary incident, it made a continuing award to Mr. Berger for the period of disability subsequent to the non-compensable second coronary, on the basis of the previous classification of permanent partial disability. Here the court made no extensive comment. Instead, it found that there was no medical proof that Mr. Berger's disability subsequent to the second coronary was in any way related to the first attack. The court said "there is no occasion to rely upon a presumption when proof is readily available."

Mr. Edwards said that it would appear that the courts have adopted the

(CONTINUED ON PAGE 27)

Hail Research Group Reelected

Officers of Hail Insurance Adjustment & Research Assn. were reelected at the annual meeting this month in Chicago. H. W. Wyant, Great American, is president; Robert E. Hainline, Hartford Fire, vice-president, and H. S. Clough, Crop Insurance Group, secretary-treasurer.

Kenneth S. Ogilvie was reappointed assistant secretary.

Mr. Wyant commented in his presidential report on the profitable hail insurance results in 1959, but urged the members not to relax. He suggested that adjusters schools be held again in the spring, perhaps including the per diem men in 1960 after they have been absent for two years.

The association has allotted funds for research projects in 1960 in Arkansas (on cotton) for the second year; Maine (potatoes) fourth year; Massachusetts (tomatoes) third year; Iowa (soybeans) second year; Indiana (tomatoes) second year; Montana (wheat and beets) fourth year; Texas (cotton) second year; Oklahoma (sorghum and wheat) fifth and first years respectively.

Committee chairmen of HIARA for 1960 are:

Cooperation in loss adjustment and adjusters meetings—M. E. Aegerter, U. S. & Foreign Management; adjusters work sheets and proof of loss forms—T. C. Touhy, Home; tobacco loss adjustments—D. R. Wilhoit, America Fore; hail loss research—E. R. Fosse, National Fire; hail loss clearing bureaus—J. F. Ames, Great American; still pictures, movies and public relations—M. R. Peterson, Fireman's Fund.

North America Must File Package Under Miss. Uniform Law

The Mississippi supreme court has upheld the state insurance commission and the circuit court of the first district of Hinds county in their denial of North America's attempt to file three homeowners policies under the casualty rating law, without complying with the fire rating act.

In its decision, the court rejected the company's contention that the state rating bureau, comprised of stock fire companies, violates anti-trust laws in its rate making activities. Fire rates are not fixed by the companies of the bureau but are made and promulgated by the insurance commission. The rating bureau only reports and recommends. The commission is discharging a function, legislative in nature, in the fixing of fire rates. The federal anti-trust laws are applicable to private action, not to those of a state exercising a governmental function, the court observed.

Reviews Law

The decision pointed out that a 1924 act established the insurance commission to fix and approve fire rates. It required the creation of a statutory rating bureau, to assist in establishing uniform, reasonable, and adequate rates which are not unfairly discriminatory. The rates are to be based on conflagration hazard and degree of protection against fire. The commission must approve the rates. Stock fire companies doing business in Mississippi must be members of the rating bureau and must pay their proportionate share of expenses.

The bureau makes a continuing study of the fire rate structure and recommends rates meeting these standards to the commission for its approval. Fire rates must not discriminate between risks of essentially the same hazard and having substantially the same degree of protection against fire. Rates filed by the bureau with the commission and approved by it are the legal rates for fire policies. It is unlawful to charge any other rates than those so prescribed.

Under the 1946 casualty act, insurers can make individual filings, and rates must contemplate past and prospective loss and country-wide expense experience, including the catastrophe hazards, if any, both within and without Mississippi.

Depend On One Sentence

The court said that North America based its claim for a right to file its homeowners policies under the 1946 casualty act, on one sentence, the designation clause, of that statute: "If any kind of insurance, subdivision or combination thereof, or type of coverage, subject to this act, is also subject to regulations by another rate regulatory act of this state, an insurer to which both acts are otherwise applicable shall file with the commission a designation as to which rate regulatory act shall be applicable."

The court observed that North America argued that this provision authorized it to designate which regulatory act is applicable to its homeowners policy, because it is a new kind of insurance which is subject both to the casualty and fire rating acts. However, the commission's order

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Blinn Retiring, Hunt New Manager Of Nebraska Bureau

W. P. Blinn at his own request will be relieved of active responsibility as manager of Nebraska Inspection Bureau Jan. 1. He has been manager since 1944 and has been with the bureau since 1916.

Mr. Blinn had preliminary experi-

ence in company and agency work, and with Missouri Inspection Bureau before going with the Nebraska Bureau.

K. L. Hunt New Manager

His successor is Kenneth L. Hunt, who has been assistant manager in Nebraska since 1944, and before that had experience in various phases of bureau work since joining Nebraska Inspection Bureau in 1928. He is a graduate of the University of Illinois and was a company examiner in Omaha before going with the bureau.

Van Orman American Executive V-P; Name Cooney, Two Others

American has advanced Francis Van Orman from vice-president to execu-



Francis Van Orman

tive vice-president. He has also been named a director and a member of the board's executive committee.

Robert P. J. Cooney has been elected vice-president and general counsel, and William W. Lauber and Allen G. Shaw have been named assistant vice-presidents in the bond underwriting department and the controller department, respectively.

Mr. Van Orman has been vice-president and general counsel since 1941. Mr. Cooney, who succeeds him, has been assistant general counsel for the past six years.

Mr. Lauber has been in the bond, burglary and glass underwriting department since 1946, and was named superintendent last year. Mr. Shaw, in the controller department since 1928, has been assistant treasurer since 1948.

Gerber Host To Insurance Officials At Chicago

Director Gerber of Illinois was host at a mid-day holiday buffet in the department headquarters at Chicago for trade association executives located in the city, department officials and representatives of the daily and insurance press. The gathering was strictly an informal get-together and was unusual in that as many diversified top echelon elements of the business are rarely assembled under one roof for a purely social affair.

Van Zile New Chief Of Crop-Hail Assn., Take Over Rain Line

L. G. Van Zile, hail manager of Fireman's Fund group, was elected president of Crop-Hail Insurance Actuarial Assn. at the annual meeting in Chicago this month. He succeeds Lloyd E. Morgan, hail manager of Corroon & Reynolds at Topeka.



L. G. Van Zile

Other new officers of Crop-Hail Assn. are Martin E. Aegerter, U. S. & Foreign Management, vice-president, and E. V. Sharp, Continental, secretary. Richard J. Roth is assistant secretary and manager.

The organization changed its constitution to take over the rating of rain insurance on public events, a line which until now has been handled by the state fire rating bureaus.

It also was decided to increase the number of members of the executive committee to 11 in order to have broader representation. The executive group consists of the three officers and Robert E. Hainline, Hartford Fire; C. F. Lauder, Rain & Hail Bureau; R. H. Gregg, Crum & Forster; K. T. Martin, K. T. Martin & Co.; W. H. Mashek, St. Paul F.&M.; H. W. Wyant, Great American; E. R. Fosse, National Fire, and J. R. Munson, Home.

Crop-Hail Assn., whose members and subscribers in the aggregate experienced an exceedingly good year (as reported in THE NATIONAL UNDERWRITER of Nov. 27), has 92 members and 18 subscribers. During 1959, 10 companies joined Crop-Hail Assn. and 17 resigned, nine by reason of merger. Two subscribers joined the organization and three resigned.

Central Casualty Names Agencies In Mich., Minn.

Central Casualty of Chicago has appointed the Seigel Co. of Detroit general agent in Michigan and Farm-Moor & Co. of Moorehead general agent in Minnesota.

Farm Meeting Jan. 15

Farm Underwriters Assn. has scheduled its annual meeting for Jan. 15 in the conference room, 1029 Insurance Exchange Building, Chicago.

FIRE AND CASUALTY POSITIONS OPEN

East	Cas. Bus. Sys. Consult.	\$15,000
M. West	Cas. Systems Mgr.	\$10,000
W. Coast	Fire Mgr.	\$10,000
S. East	Fire Undr. Supv.	\$ 8,500
Rky. Mt.	Cas. Undr.	\$ 7,800
M. West	Bond Undr.	\$ 7,500
East	Anal. Dept. Supv.	\$ 7,500
East	Cas. Clms. Supv.	\$ 7,200
M. West	Cas. Spec. Agt.	\$ 7,000
M. West	Jr. Cas. Acct.	\$ 6,000

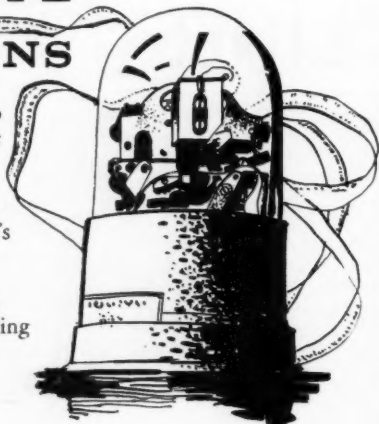
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Aetna Fire	73½	75½
Aetna Life	83½	85½
American Equitable	42	44
American (N. J.)	26	27
American Motorists	15	16½
American Surety	19	20
Boston	32½	33½
Continental Casualty	70	72
Crum & Forster	67	69
Federal	58	60
Fireman's Fund	51½	53
General Re	91	94
Glens Falls	31½	33
Great American	40	41½
Hartford Fire	198	203
Hanover Fire	39	41
Home of N. Y.	52½	53
Ins. Co. of No. America	126	128
Jersey Ins.	35½	37½
Maryland Casualty	36	37
Mass. Bonding	35½	36½
National Fire	139	Bid
National Union	36½	38
New Amsterdam Cas.	48	50
New Hampshire	49	51
North River	35½	37
Ohio Casualty	28½	30
Phoenix, Conn.	79	81
Prov. Wash.	20	21½
Reins. Corp. of N. Y.	19	20½
Reliance	47	49
St. Paul F. & M.	52	54
Springfield F. & M.	30	31
Standard Accident	57½	59
Travelers	83½	85
U. S. F. & G.	34	35½
U. S. Fire	27½	28½

Stocks

Central Casualty Names Agencies In Mich., Minn.

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M. West	Bond Undr.	\$ 7,500
East	Anal. Dept. Supv.	\$ 7,500
East	Cas. Clms. Supv.	\$ 7,200
M. West	Cas. Spec. Agt.	\$ 7,000
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N. Y. Ambulance Chasing Probe Continues; Action Against Lawyers, Insurer Employees

By EUGENE G. DOWNEY

The probe of ambulance chasing in Brooklyn, N. Y., is to continue, at least through 1960. It has been learned from an informed source that a full report of the findings and actions taken since the probe began in January, 1957, will be made to the appellate division of the New York supreme court in the near future.

It was not ascertained whether or not the report will be made public. The investigation by the courts has been conducted in secret. It was originally called for by the Brooklyn Bar Assn., with the idea of curbing unethical conduct and the consequent wrangling of insurers through questionable practices.

Through conspiracy between lawyers, doctors, garage repairmen, insurance company examiners and salaried adjusters, and often with the knowledge of claimants said to be involved in accidents, evaluation of liabilities was exaggerated, if not entirely fabricated.

Thus far, 75 lawyers have been examined by a team of court investigators headed by Denis M. Hurley, chief counsel. Mr. Hurley was reported to have informed his staff that the investigation was to be discontinued Dec. 31. This possibility drew gas for continuance from the bar

association and insurer spokesmen, including J. Dewey Dorsett, general manager Assn. of Casualty & Surety Companies, and Alfred J. Rosse, president Brooklyn Insurance Brokers Assn. Arthur Blum of Rockaway Park, N. Y., president New York State Assn. of Insurance Agents, also added his approval of the probe.

Results Of Probe To Date

Of the 75 lawyers questioned so far, 40 pleaded the fifth amendment; five have been disbarred or forced to resign; and two more will resign or be disbarred shortly. One lawyer faces severe court censure. Altogether, 20 have been or will shortly be prosecuted.

If the results seem a poor return for three years' work and \$750,000 in city funds, nevertheless considerable progress has been made in the face of stalling by shifty lawyers.

The probe has established that 40 lawyers alone handled 10,000 negli-

gence cases in four years. There are said to be about 500 negligence lawyers in Brooklyn. Automobile liability rates in Brooklyn are twice as high as rates in Los Angeles, and three times higher than rates in Cleveland, Milwaukee and Pittsburgh.

Describe Activities

Some of the activities of the ambulance chasers included presenting insurers with bills for medical services, written on the notepaper of a physician long dead, and making claims on behalf of a woman who was found to be 100 miles away from the scene of the accident in which she was supposed to have suffered injury.

The probers were delayed by innumerable appeals for adjournments. Lawyers pleaded ignorance of their rights. In one instance, a lawyer's office was burgled within hours of receipt of subpoena for records being mailed to the address. When police examined the office, they found no strange fingerprints.

In desperate efforts to hold up the investigators, some lawyers tried to pull political rank on the probers, and one lawyer stalled them for 10 months

in their efforts to get his records, by passing them on to his brother, allegedly a powerful political figure.

The testimony of one lawyer led the New York insurance department to conduct its own investigation. The lawyer named 76 insurance company employees as having been involved in his ambulance chasing activities.

The department found that he had had no association with many of the persons named. However, since the lawyer was licensed as an insurance broker, the department revoked this license and that of his brokerage partnership. The action is being reviewed by the court. At present, the lawyer-broker must apply once every 30 days for renewal of his licenses.

The result of the insurance department's investigation to date is that 26 salaried examiners and adjusters of 16 companies have been dismissed by their employers. Altogether, the 76 persons named represented some 27 insurance companies.

Meantime, the board of regents of New York Medical Society says that it will take them five years to probe those said to have ambulance chasing practices.

National Casualty Names Miss Oskin, Schroeder

National Casualty has appointed Mary Louise Oskin secretary and James H. Schroeder superintendent of AS claims.

Miss Oskin, who has been assistant secretary, succeeds the late W. C. Buttrick. She has also been secretary of the late President W. G. Curtis Sr. and Executive Vice-president Peter G. Arn. Mr. Schroeder, in the business 10 years, joined the company as a claim adjuster in 1951 and became claims supervisor in 1956.

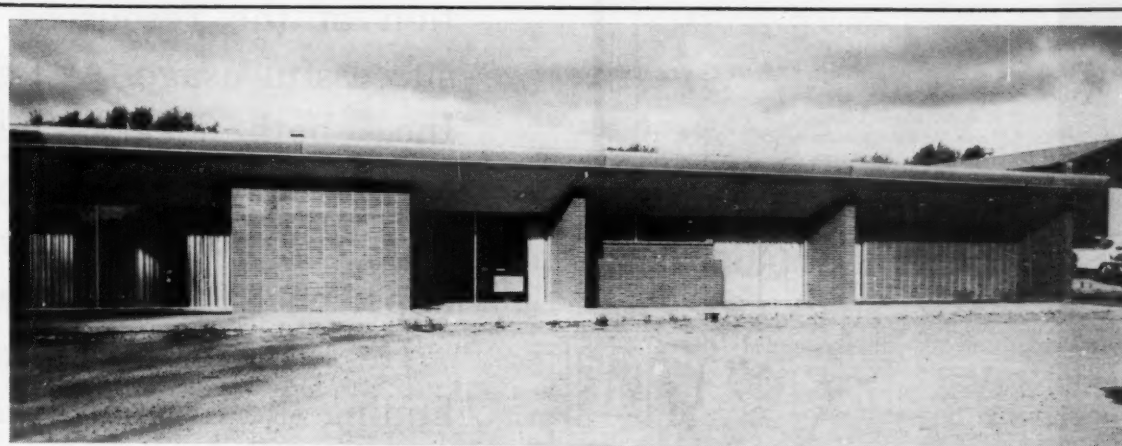
Vt. Agents Set Award For Essay On Youthful Drivers

Vermont Assn. of Insurance Agents has established a \$250 scholarship award for the high school senior in the state who writes the best essay on "The Young Driver Problem." The winner may use the fund for education at the college, university or advanced school of his or her choice. The association is appointing county chairman to promote the contest which closes March 15, 1960.

Hardware Alumni Organize

Charles Karch, Pekin, has been elected president of the newly formed Illinois Hardware Alumni Assn. H. G. Perry, Rockford, is vice-president; Joe Trees, Roberts, secretary; R. E. Angle, Belleville, membership chairman, and Frank Terry, Champaign, president and means chairman. The new association plans semi-annual meetings, a monthly letter and compilation of material to assist members in making engagements.

Atlas Agency, New York general brokers, has leased half the third floor 80 William Street. The brokers will occupy the office when modernization of the office is completed early in 1960.



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Year Is Good For Major Reinsurers; Volume Surges, Losses Up Slightly

By KENNETH O. FORCE

This will be a good year for the major U. S. professional reinsurers. However, it will be a fairly poor year for the smaller and small reinsurance companies. At the third quarter mark the combined loss and expense ratios of more than half of the two dozen or so reinsurers operating in the U. S. were above 100, some of them substantially so. These are, in general, the same companies that had a poor year in 1958. The number excludes the reinsurance departments of several primary companies that operate in this field on which figures are not available.

Volume Substantially Up

Volume for the reinsurers will be up substantially, compared with 1958. One medium sized reinsurer is running almost twice the volume of 1958. Another facility which operates in lines and coverages that formerly were considered pretty much the province of London Lloyd's was 65% ahead of the third quarter. Another large reinsurer reports a 25% increase at the end of 11 months.

The obvious explanation for the rise in volume, on top of a good increase in 1958, is the difficulties London has had with American business which has caused that market to tighten up its underwriting and acceptance of American business. The difficulties are real, and though one Lloyd's syndicate and one British insurer, both heavily committed to American business, went by the boards, it is evident that the situation across the Atlantic is not yet completely shaken down. (Incidentally, the large share of the loss from the British insurer's collapse has fallen, it is reported, on the U. S. claim and loss organization that handled its American service.)

Maintaining Stricter Relations

Both Lloyd's and British insurers today are maintaining stricter relations with American brokers and business. They are insisting on more facts and figures to justify their underwriting commitments. They are generally offering more realistic coverage and quoting more realistic rates.

This does not mean that the English market is not competitive. It is, and it is expected to continue to be. There is no disposition in the U. S. to regard that market as anything but quite essential, even though underwriters in the U. S., including some prominent executives, think that it is unwise as a matter of sound underwriting and unfair because of the non-admitted, unregulated character of the competition, for London to get wholesale into broader coverages at substantially reduced rates, in competition with American insurers for almost every kind of direct business.

This matter is expected to be aired thoroughly early in 1960 at hearings of the Senate anti-trust and monopoly subcommittee, with Sen. O'Mahoney back on the job after his illness to direct the proceedings. This should give both sides a chance to state their case. The result of a complete airing of facts and opinions should be beneficial. Events have proved American observers correct on the underwriting

side. And not only is Sen. O'Mahoney going to look into the question of fairness. In addition, several states have indicated that they intend to try for legislation that will even up the rules between admitted and non-admitted competitors.

But the tightening up of the London market is not the only factor that has produced more volume for American reinsurers. Expansion of property values and some more inflation also have contributed. Even the quite small insurers are showing increases in volume. Also, the major American reinsurers today are considerably more aggressive competitively than they were five or 10 years ago, and they have a considerably larger policyholders surplus to justify it.

Are More Competitive

They are more competitive as to coverage, risks and capacity. They have become more venturesome and experimental in the kinds of business they will write and the forms of coverage they will undertake. They are tougher competition for all comers today than they were 10 years ago. Of course, with a somewhat tighter market, they are also getting more choices than they used to, and they can do somewhat more selecting. This

had some favorable effect on their loss ratios in 1958.

As for 1959, however, in the face of the substantial increase in volume, there has been a slight deterioration in loss ratio. The experience naturally differs, company to company. One or two will be in the black on all lines. Fidelity and surety, fire and allied lines, and automobile liability are fairly good. Inland marine and automobile PHD are in the red for some.

Reinsurers may end the year in the black on workmen's compensation. But they don't expect it to continue that way. It is bad for insurers—they will lose millions on the line in 1959. For a long time reinsurers generally have believed there is no way to cure this line of what ails it. With unlimited medical presently almost universal, this is an open-ended risk without a limit of any kind except the sky. There is a 1% factor in the rate for the multiple accident, but nothing for the single accident that may cost \$500,000. The reinsurer promises that for today's \$1 it will pay for a commodity 20 years from now the cost of which no one can predict.

This is why reinsurers write WC reluctantly and only when they must—for good clients of other lines. It is why London has tightened up on WC

substantially. Apparently it also is why one London market has asked of one of its large WC insurer accounts in the U. S., as a condition of renewal, that the nuclear hazard be excluded.

Interest In Excess Of Loss

Insurers are showing an increased interest in excess of loss reinsurance as a means of reducing costs, compared with treaty and reciprocal reinsurance. Those who favor this type of coverage point to the small loss, \$25 say, which may be, and in some cases is, split 15 or more ways via 12 or 13 reciprocal treaties and two treaties with professional reinsurers. When the adjustment bill comes in, usually at a later time, the \$20 or \$25 charge must be split again 15 or more ways. It takes a lot of pencil-paper work to do this—and many pencil-paper workers.

The fact that the major reinsurers have done pretty well in recent years has attracted attention and undoubtedly will attract more as time goes on. The field seems to be particularly attractive at the moment, both because of the reasonably good results being shown by major American reinsurers, compared with those of many primary insurers of the same lines, and because London has become more care-

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U. S. Reinsurance To Foreign Insurers Continues To Rise

In 1958 net receipts by foreign countries on their reinsurance business with U. S. insurance companies amounted to \$59.2 million, according to the statistical compilation of U. S. Department of Commerce's bureau of foreign commerce and office of business of economics. U. S. insurers paid \$241.8 million in premiums for reinsurance ceded to foreign reinsurers and recovered from them \$168.1 million in losses. The \$73.7 million excess of premiums paid over losses recovered was offset by net receipts of \$14.5 million received by the U. S. on reinsurance U. S. insurance companies accepted from foreign ceding insurers. U. S. insurance companies received \$54.5 million in premiums on reinsurance assumed from abroad and paid losses thereon of \$40 million.

The \$59.2 million net receipts by foreign countries in 1958 on their reinsurance business with U. S. insurers represents an increase from the \$38.8 million in 1957.

The Department of Commerce initiated the annual reinsurance survey in 1950. Since 1951 the surveys generally have shown increases in the amount of premiums ceded to foreign

reinsurers. In 1951 premiums paid by U. S. ceding companies to foreign reinsurers were \$147.2 million and losses recovered were \$106.8 million.

85% From British Reinsurers

Of the \$241.8 million of premiums paid by U. S. ceding insurers in 1958, British reinsurers received \$205.1 million and Swiss reinsurers received \$20.4 million. Thus in 1958 as in earlier postwar years, premiums ceded to British reinsurers accounted for about 85% of the total.

The amount of reinsurance assumed from abroad by U. S. insurance companies, although much smaller in amount than that ceded abroad, nevertheless has been growing since 1951. Net premiums of \$54.5 million received by U. S. insurers in 1958 on reinsurance they assumed from abroad were three times the premiums of \$18.1 million received in 1951.

The department's concern is with the effect on the current balance of payments of these international reinsurance transactions and not with the type of considerations which are taken into account by insurers when computing their underwriting results. Therefore, these surveys are not in-

tended to measure the net profit or loss of international reinsurance operations in any given year as measured by insurance companies, but rather as an attempt to measure the actual movement of funds from and to the U. S. in connection with reinsurance.

Reinsurance Interchanges Summarized

Finally, because of the accounting framework with which the entire balance of payments is connected, the accumulation of required reserve funds in the U. S. by foreign non-admitted companies, even though not in their entirety at the disposal of foreign countries, is considered to be an accumulation of foreign-owned dollar assets in the U. S. For balance of payments purposes, therefore, the excess of premiums ceded over losses recovered is regarded as essentially a cash transfer to foreign countries since the accumulating cash balances in the U. S. are regarded as foreign funds.

Below is presented a summary of reinsurance interchanges, U. S. and abroad, since 1951, in millions of dollars:

	Net premiums paid on reinsurance ceded to abroad										Losses recovered from abroad on ceded reinsurance									
	1958	1957	1956	1955	1954	1953	1952	1951			1958	1957	1956	1955	1954	1953	1952	1951		
All areas	241.8	234.2	207.9	207.1	212.7	170.6	152.9	147.2			168.1	179.5	146.3	160.0	153.6	119.8	100.7	106.8		
Western Europe	233.0	225.6	201.5	201.8	207.6	165.4	148.6	143.4			160.7	172.6	141.5	155.8	149.9	115.6	97.2	103.5		
Switzerland	20.4	19.0	16.6	16.1	17.0	17.4	15.3	12.6			16.0	14.6	13.8	12.1	13.7	13.9	11.3	6.7		
United Kingdom	205.1	201.3	177.7	180.6	187.6	143.4	129.3	127.7			138.5	153.0	124.2	140.4	133.3	99.3	83.7	95.7		
Other	7.5	6.3	7.2	5.1	3.0	4.6	4.0	3.1			6.2	5.0	3.5	3.3	2.9	2.4	2.2	1.1		
Canada	3.3	2.9	2.4	2.2	2.1	2.2	2.0	2.2			2.7	3.4	2.8	2.2	2.3	2.5	2.5	2.7		
Latin America	2.8	3.0	1.9	1.7	1.5	2.1	1.6	1.3			2.2	1.9	1.0	1.2	.7	1.0	.6	.5		
Other Countries	2.7	2.7	2.1	1.4	1.5	.9	.7	.3			2.5	1.6	1.0	.8	.7	.7	.4	.1		
	Net premiums received on reinsurance assumed from abroad										Losses paid to abroad on assumed reinsurance									
	1958	1957	1956	1955	1954	1953	1952	1951			1958	1957	1956	1955	1954	1953	1952	1951		
All areas	54.5	48.0	38.6	33.0	29.2	28.3	21.4	18.1			40.0	32.1	27.7	21.9	19.4	17.4	13.2	12.2		
Western Europe	31.0	26.8	20.0	16.9	15.7	14.1	11.1	10.2			23.6	18.9	17.9	13.1	10.9	10.5	7.6	6.9		
United Kingdom	17.9	15.8	13.3	12.1	12.1	10.8	8.4	8.1			14.3	11.7	12.3	10.0	8.3	7.8	6.0	5.3		
Other	13.1	11.0	6.7	4.8	3.6	3.3	2.7	2.1			9.3	7.2	5.6	3.1	2.6	2.7	1.6	1.6		
Canada	9.0	9.4	8.8	5.3	4.1	4.2	3.5	3.0			5.7	7.4	5.4	3.3	3.2	3.3	2.1	1.8		
Latin America	10.8	8.3	7.0	7.3	6.3	7.3	3.7	3.4			8.1	4.1	3.1	3.1	3.9	2.8	1.9	2.2		
Other Countries	3.7	3.5	2.8	3.5	3.1	2.7	3.1	1.5			2.6	1.7	1.3	2.4	1.4	1.8	1.6	1.0		

Reinsurer's Role As Dutch Uncle Part Of Its Professional Function

By CARL L. KIRK
Consulting Actuary

The professional reinsurer is a high-class gent, nothing grubby about him, and he is envied by every other branch of the business. And why not? His outlook on business is serene and contemplative, always appears unhurried and unruffled, and you can truly say he leads the life of a gentleman of leisure.

A tradition of deep-seated conservatism and dignity pervades the reinsurance business. No other segment is so fraught with respectability and refinement. Its relationship to companies in the front-line ranks is that of both citadel and chapel—a bristling arsenal of strength and a quiet fountain of inspiration. Must always be prepared to help a company fight its battles, yet be ever ready with a word of wisdom about the eternal verities or the wages of sin.

"A man is known by the company he keeps" is what the copy-books taught us, and the same principle holds true in the insurance business. One simple way to test the character of an insurer is to look at its reinsurance facilities. A respectable reinsurance connection is vitally important—especially to the new company, the small company or the company in a lean surplus position. The making of such connections is not a routine transaction, but an important matter of basic planning. It requires both the reinsurer and reinsured to exercise utmost caution in selecting the other party to the agreement.

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Carl L. Kirk

ant—especially to the new company, the small company or the company in a lean surplus position. The making of such connections is not a routine transaction, but an important matter of basic planning. It requires both the reinsurer and reinsured to exercise utmost caution in selecting the other party to the agreement.

Belief Alters Rapidly

I used to think that no first-class reinsurer would ever risk its name and resources to give the appearance of integrity to an insurer whose reputation was not as spotless as that of Caesar's wife. My biggest shock since leaving the sheltered life of a company official came when I first discovered that a prominent reinsurer had furnished surplus aid cover to a carrier whose management and methods could not measure up to minimum standards. In any case of this kind I am sure it is not a happy arrangement for the reinsurer, for little can be done to protect an imprudent carrier from its own folly. And if worse comes to worst, a piece of the reinsurer's reputation must surely go

down the drain with the defunct company.

The first essential of a sound reinsurance contract is the highest degree of mutual confidence in the skill and integrity of both partners. Nothing is more apt to arouse suspicion about a reinsurer than to see its name mentioned in reference books or promotional material about a company of shady reputation. To be even a little bit suspect is more devastating in the secondary market than in the primary, simply because the customers of the former are more discriminating than the insurance-buying public.

Besides giving its stamp of approval

to a treaty company, and standing ready to pay its share of losses promptly, the reinsurer assumes another kind of responsibility. I refer to the vital role of Dutch Uncle. Nothing is more significant than its duty to keep on the lookout for unfavorable trends, ill-considered plans and soft spots in the management team of its client company, which may lead to serious trouble for both. Oh yes, the genial sales-minded fellow from the reinsurance company wants to avoid arguments and refrain from telling the customer how to handle its affairs. But he must not forget the element of professional vigilance is part

of the package which the owners of an insurance company expect the reinsurer to deliver. There are few things which inspire greater respect and confidence than a reinsurer's courage to stand up and tell some rugged truths to a company executive, at the risk of losing a good account.

Needs Expert Staff

Any organization worthy of the name professional reinsurer must be staffed with men having an expert knowledge of the business and wide perspective gained from close contact with many individual insurers. Indeed, these men have a sort of sixth sense to locate and anticipate conditions that are likely to become troublesome. I have never yet heard of an able manager who resented any efforts of its reinsurer to offer solid judgment based on experience. He knows it could help the company

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Small Mutuals Face Real Problems As Large Insurers Step Up Tussle

By EDWARD N. MURRAY
Vice-president
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America's oldest fire insurance company is a mutual organized in Philadelphia in 1752. Benjamin Franklin was the motivating force in the founding of the company, which is today a strong insurance institution. Since then, mutual fire insurers have performed an essential service to the public.

There are approximately 2,000 mutual fire companies in operation, more than 150 of them 100 years old or older. Their founders were pioneers, establishing organizations which would afford a means of spreading the losses of the few, to be shared by many, for the protection of all, through insurance.

In more recent days, many of the township, county and farm mutuals have lost ground to the more aggressive large companies in the business. While the exclusive agent companies and the recently aroused National Board insurers have become locked in what appears to be mortal combat, these companies have quietly continued to turn in a good performance. Examination of their rates and experience shows that in spite of size and capacity, they have consistently made underwriting profits in a time when these other companies were sustaining heavy losses.

Successful Operations

Many of the smaller mutual companies have not had rate increases since before Pearl Harbor, and in many instances rates are lower today than in 1932-33. Yet despite inflation, spiraling costs, and rate deviations, they are operating at lower combined loss and expense ratios than most larger stock companies. The figures indicate that the companies under discussion have conservative yet consistently effective management.

Today, however, these companies are experiencing new problems. Perhaps an attitude of complacency has crept in that has prevented them from keeping even with their competition. Their directors have been satisfied to rubberstamp the methods established by their predecessors many years ago. Many have been reluctant to adopt new forms and methods that would

ensure their continued growth. The result has been stagnation. Legislative restrictions have hurt, of course, and only in certain areas have these restrictions been eased. Broader coverages must be offered by these small companies, or their policyholders will turn to other markets.

But how can companies with limited surpluses, operating in restricted areas, offer broader coverages? How can they develop a spread of risk? The obvious conclusion can only be, by professional reinsurance.

Many of these companies have carefully regulated their volume of new business, in an effort to limit their exposure. A misconception of reinsurance has prevented some directors and managing officers from appreciating the value and advantages of treaty facilities, which would have enabled them to accept the good business which has been rejected.

These companies need a reappraisal of their status. The potential and personnel of this type of insurer must be studied. Management must study and understand the problems confronting it and decide on a proper course. Once this has been accomplished, professional reinsurers can assist in acquainting management with pertinent data relative to the many phases of reinsurance.

The continued financial health of

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Edward N. Murray

these smaller companies is of paramount importance to the business and the public. A dose of preventive medicine may be in order, which can be compounded by blending a mixture of education, internal reorganization, adoption of broader coverages, and adequate reinsurance.

It remains a constant challenge to management today to keep current with prevailing conditions in insurance. There is no place in the smaller company for the specialist, so management must embark upon a program of intensified study of a specialized nature. To fulfill the responsibilities assigned, management should study the latest reports and bulletins, attend lectures and informative meetings and management clinics, and, where possible, take study courses. As students of the business, they can seek better methods and procedures, learn how to control costs and analyze markets. They can adapt coverages to policyholder needs and continue sound fiscal policies.

Through a well developed educational program the other essentials can be acquired. Modernization of internal procedures would be an obvious by-product of studying new techniques. Well-trained employees are more efficient, more capable and more eager to do a job well. Surveying policyholder needs will certainly prove that the "fire only" policy belongs to the horse and buggy era.

The fourth ingredient of the prescription is reinsurance. Here is assistance management must have. Why? To provide (1) spread of risk, (2) stability by lessening exposure to catastrophic loss, (3) greater profit stability, (4) control or elimination of the erosion of surpluses under stress from unearned premium reserves, (5) reduction of exposure to extra hazardous risks, (6) protection from costly errors and/or omissions, and (7) the possibility of a more rapid expansion without jeopardy.

Once the direct value of reinsurance is understood and appreciated by management, many indirect advantages will accrue. For example, through the services of a reinsurance broker, the company adds an unaffiliated member to its management team. Since reinsurance is international in scope, the broker brings to the company his knowledge of and

acquaintance with the management, methods, reputation and stability of the outstanding companies in many countries.

His general knowledge of the experience developed in the various classes of insurance by many companies will enable him to offer sound advice regarding such matters as rating, loss and expense ratios, and extra hazardous risks. He will save the company considerable time, motion and money by acting as an intermediary between it and the reinsurers, who may be domiciled abroad. His experience as a specialist will assist the company in arranging treaties and placing facultative risks at favorable rates. His assistance on losses will assure prompt settlements and likewise prevent friction and possible litigation.

As a matter of practice, both the reinsured and reinsurer will normally profit by employing capable, dependable brokers or intermediaries who possess a thorough knowledge of the market and who also employ sound business practices, as they realize that it pays to place only satisfactory business with reinsurers and extend reliable information to their clients. They can and do perform a worth while service, while, to the best of their abilities, actually protecting the mutual interests of both parties.

If, as in the past, local mutuals are to succeed in meeting the needs of policyholders, they must enjoy the cooperation and assistance of larger insurers. The larger companies, both stock and mutual, need the assistance and support of smaller organizations, as can be seen by the ever constant demand for greater "capacity" in the business.

With the population increasing nearly 6,650 persons per day, or 2,426,000 per year, we can expect a staggering quantity of new homes, new towns and cities, new industries, new businesses, all with physical properties to be insured, all with liability exposures to be covered. The larger insurers are not capable of handling all of this forecasted growth. They are experiencing difficulties even now providing business and industry with adequate capacity.

Suggests Seminars

The business as a whole can help attract and train the personnel that is needed now and will be needed even more if it is to meet the demands of the future, by arranging seminars to be conducted, not by theorists, but by practical, experienced people. Thus a technical discourse of tremendous value will be available to management of every insurer, large and small. Also, by recognizing the potential of the fine smaller companies and overcoming the attitude that their volume is too minute to merit consideration, they can participate in a reinsurance program tailored to meet the various companies' requirements. Again, by cooperative effort, through pools, double insurance, and co-insurance as between insurers, the larger insurers make available a wealth of underwriting and engineering experience. In this way, great new sources of unallocated surpluses would become available to help cope with the ever increasing problem of "capacity."

Finally, where considered prudent, merger of some of the smaller companies would provide stability. Growth through acquisition will open new horizons. The smaller mutuals will find new vigor with which to carry on the great traditions they have established in this country since 1752.

The Importance Of Facultative In Today's Reinsurance Programs

By LESLIE H. COOK

The rather startling advance, both in volume and capacity, of direct business has given rise to an increased demand for reinsurance. The extent of the use of reinsurance depends on the amount and also on the character of the risks which today's companies are called upon to assume.

Tracing the history of reinsurance, we find that the original method of distributing risks to another insurer to reduce the amount of possible net loss was the facultative method. However, as the volume of direct insurance grew, the need for the certainty of a reinsurance facility developed the treaty method. In today's modern reinsurance practice the treaty method has to a great extent replaced the facultative method.

Redefine Function

It is an agreed opinion that the true function of reinsurance is to dispose of surplus risks, but not to dispose merely of bad risks. It is obvious that the stability of a reinsurance market depends on the law of average and the spread of risks, so that the direct insurer may not retain all of the non-hazardous risks and cede to a reinsurer the more hazardous risks. The ceding company must be prepared to surrender part of its surplus profits in good years so that it may recover heavy losses in bad years.

Perhaps the principal factor in the successful conduct of reinsurance is the manner in which the ceding company operates its gross account. If the

gross account is underwritten in a manner which over a given period will produce a profit, and if retentions are fixed with regard for the interests of the reinsurers, the treaties will be consistently good, with the reward being that the ceding company can commend very favorable terms.

Let us attempt to give some consideration here to the importance and merits of facultative reinsurance in today's reinsurance business. The rather startling increase in loss ratios during the past five years would of course point to an underwriting loss on the part of the ceding company, and it cannot be denied that this loss was spread to the reinsurance markets. The effect of these steadily mounting losses has prompted considerable revision of treaty facilities. These revisions include more restricted contracts, increased net retentions and advancement of reinsurance rates. It would appear to follow, therefore, that some steps should be taken by the ceding company to protect their treaties by giving consideration wherever possible and practical to the purchase of facultative reinsurance.

It is true that the intent of a treaty is to protect the ceding company's book of business for the particular class reinsured, and this contemplates the spread of business underwritten by the company, including the unfavorable, average and favorable business. However, with the trend towards ever-broadening standard policy coverages, unusual, non-standard coverages, the growing size of individual risks, the more hazardous and yet somewhat un-

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known nature of operations requiring insurance protection in this modern world of nuclear activity, space experiments, and related business, the ceding company should scrutinize closely the benefits of facultative reinsurance.

We cannot overlook the fact that it is necessary when negotiating facultative reinsurance to place in the hands of the reinsurer full underwriting data so that the reinsurer might have a complete and accurate picture of the exposure. This may be time consuming and perhaps costly to the ceding company, which factors must, of course, be given due consideration. One can only stress that these factors are somewhat insignificant compared to the benefits which may be derived by the ceding company. These benefits include:

1. An opportunity to air and discuss with a non-competitor the ramifications of a risk of unusual and, as yet, little known exposures, resulting in the pooling of knowledge and information.

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Reinsurers Eye Effects Of Market Emphasis On Insurer Underwriting

Reinsurers are watching for possible effects on the insurer's underwriting practices, and underwriting results, of the current emphasis on marketing, marketing programs, payment plans, packaging and company "account selling."

So far, the major influence of these developments has been felt in personal insurance, automobile and homeowners. But more packaging is being done in the commercial field. Undoubtedly the popularity of payment plans in this area, plus packaging and other factors, will lead to more commercial "account selling" also.

Marketing plans and the competition they are generating have not put underwriting on the shelf, though they have relegated the subject to the background. Unquestionably, the very considerable efforts now being exerted in the direction of providing the personal insured with life, A&S, auto and homeowners gets away to some extent from the classic pattern of fragmentation of the insurance function by lines and risks, which even the life business has followed to some degree (e. g., for many years only a few companies wrote impaired risks, only a few wrote jumbo amounts).

The commercial business represents a far more varied and sizable pattern, per unit, than the personal or family insured. Yet there is a good deal of evidence that several classes of commercial risks lend themselves readily

to the idea of account selling. One example would be the smaller mercantiles, which are easy to handle, require few changes and little service, and which agents regard as the most profitable of all lines because they are the least troublesome.

The reinsurer can re-underwrite the primary insurer's business (as it "underwrites" its management to begin with). It can do this by rejecting lines the insurer has, perhaps for marketing reasons (these used to be "agency reasons"), decided to take. Or the reinsurer can underwrite the insurer's business by not doing business with it at all. The reinsurer has a measure of freedom in pricing not available to the insurer. It can get more money for its share of the risk than perhaps the insurer has been able to get or has been willing to ask for.

Shares Insurer's Fortunes

Yet basically the reinsurer has to share the fortunes of the insurer. The difference between insurer and reinsurer results, barring marked differences in the quality of management, has to be relatively small. Reinsurance competition and the pressure from insurer clients are effective in keeping it that way. It can be more selective by what is frequently closer and more knowing underwriting than that of the primary insurer. It can charge—within range—what it thinks the risk or line is worth. But it has to

ride the same tides as the primary insurer.

Yet the modern movement in the direction of packaging by policy and packaging by marketing programs will tend to give the insurer somewhat less choice in the lines it writes. Unless it studies closely the risks it writes, it could veer in the direction of poorer underwriting than might be the case with fragment underwriting and marketing. For those companies that reached worse than average underwriting difficulties in the past five years, the transition to the age of marketing is posing serious problems.

Packages Bring Capacity Problem

Those companies that are making the adjustment to modern competitive conditions without losing headway on underwriting are apt to give the reinsurers little or no trouble, at least the larger reinsurers. But the movement toward a larger package or account could and probably will give the smaller reinsurer problems in the area of capacity. The smaller reinsurer already has some problems of this kind. Perhaps it can solve them, or may have to, by writing for fewer insurers.

Undoubtedly the basic concern of the reinsurer, always highly conscious of the underwriting skill of the client-insurer, will continue to be that insurers not notably successful in producing good underwriting results will be less efficient at it under the pres-

sure of having to compete with vigorous, well advertised, energetically promoted marketing plans.

One example of how packaging can affect the habits of insurers and cause the reinsurer trouble is in the area of homeowners. It must be said that the difficulty has come as much from reinsurance competition as from the inclinations of the insurers.

Some of the smaller companies, multiple line largely to the extent of writing homeowners, have been provided large enough gross accommoda-

tions so that they could assume for their agents the same size risks as "the big companies."

However, such companies continue to retain the same net as in the past, \$10,000 say. They don't have enough volume to warrant assumption of a risk running up to \$80,000. (The average would be somewhere in the neighborhood of \$30,000.)

When there are a few big losses, they are in big trouble. If the reinsurance is on a sliding scale, they take a licking along with the reinsurer. If

it is on a flat commission plus contingent, the contingent goes out the window, and they face a higher reinsurance cost on renegotiation.

For a time, it is said, the offering of large gross lines was principally by the London market. However, when that market began to underwrite its American business more carefully, the small insurers started asking U. S. reinsurers for similar accommodations.

The solution here, according to the reinsurers, is for the company to get the agent to split the business at the agency level—usually half and half would do the job and certainly three ways would suffice. If this sounds like an invitation to the agent to increase his expense, it is pointed out that most of the companies in this category pay their agent a few points more in commission than the larger insurers, or a contingent, or both, so that he can afford to spend a little more to help that company solve its problem.

Difficulties With Facultative

The smaller company could facultatively reinsure the larger risk in order to bring the gross line down to a proper relation with its net. However, this always presents problems. It is expensive to the company and reinsurer. But perhaps more important, if the company should make a facultative arrangement with another insurer, it is apt to be on a trade-back basis, so that it will get in return the same kind of business it is assuming. It will end up in much the same position as it started, after paying the costs.

Whatever the arguments, pro and contra, this is one modern development in marketing that is having its side effects in the reinsurance field. The situation is said not to be confined altogether to homeowners.

Aside from what appears to be a loosening effect on underwriting, offering larger gross line accommodations to agents, it is said, places the small insurer in a poor technical position. As under all reinsurance arrangements, the insurer eventually pays its own losses. If, as customarily happens nowadays, it begins to get larger losses than it and its reinsurer combined can tolerate, it has to back up. After having spent time and money selling its agents on its ability to take lines as big as the big insurers, it is mortifying to have to go back and unsell agents on the idea. It is also expensive.

Thus, while reinsurance permits the smaller insurer to write larger lines than it could otherwise do, it is not a facility which puts the insurer in the same position as a competing company with 100 times the volume, surplus and assets. It cannot tolerate the same losses.

Perhaps the experience of insurer and reinsurer with gross lines that are too large may act as a deterrent in connection with broader combinations of coverage that exist or are planned in the commercial field.

Wider Packaging

Homeowners, of course, is now a fairly well seasoned package. The packaging in the commercial field is not so well settled. What might be termed market packaging is in its infancy—the inclusion in one plan of homeowners with mortgage redemption life and A&S, and beyond that, the combination of automobile with the other three, held together by company recognition of insured and his family as an account and by the mechanical means of a payment plan. Whether the market packaging will also stimulate demand by many com-

panies for larger gross accommodations from reinsurers remains to be seen.

So far, the marketing influence has been the most pronounced in the automobile field. Consequently, the effects on the insurer's and potentially on the reinsurer's results are being followed there with the utmost interest.

The underwriting viewpoint, which no one doubts is a quite important one, is that there is lack of statistical evidence to support the reductions that have been made under the special auto plans. To a degree, and no one is sure to what degree, the reductions are arbitrary.

One view is that there is no statistical evidence in the excess limits table to justify a reduction in rates at the top of the liability, which is where the reinsurer lives. There is no evidence in the insurer's retained portion of the automobile risk that clearly warrants or, perhaps, even suggests, that a cut can be tolerated there. If the reduction is going to come out of the top portion of the liability, the insurer is not going to have enough money to pay for its reinsurance; if from the bottom, it will not be able to pay its share of the primary losses.

Merit Rating Plan

The illustration is cited of the California plan. When it first came out, reinsurers regarded it as a balanced plan. Samples of existing auto business projected on the basis of the new plan, credits and surcharges, and based on actual driving records of insured, indicated insurers could anticipate an increased premium of perhaps as much as 10%.

But with the modifications which eliminated previously chargeable offenses, these same projections indicate that the plan will produce a decrease of approximately 20%, a 30 point swing. The California experience, as experience elsewhere doesn't justify any such reduction.

Lower rates designed to get the buyer's decision, unless at the same time the insurer grades up its business enough to offset the lower charges by a corresponding improvement in loss ratio, will put the insurer under pressure to save money somewhere, everywhere. One item the smaller insurers will study is their reinsurance. This will be a critical matter for such insurers, for they have a fight on their hands today to save their personal lines business, auto and homeowners. Reinsurers note that both lines have been somewhat worse for them in 1959 than in 1958, as they were somewhat poorer in 1958 than in 1957. Reinsurers after more money for such lines, particularly automobile, may collide with insurer clients looking for badly needed savings wherever they can effect them.

Urge Technique Revision

Some underwriters do not believe that the techniques of getting accurate and complete information of the driving record have been worked out satisfactorily. The best method would be the insurer's own records on the driver-insured, but this is not of course feasible on new business.

One company executive, bothered by the problem of securing accurate information on insured's driving record, took from his company's files the records on 100 insured who had been with the company five years or more. He then had company personnel interview each of the 100 (scattered across the country) and ask them how many

(CONTINUED ON PAGE 17)



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Traces Reinsurance Discoveries In Life Field, Novel Approaches

By **ROBERT O. BONNELL Jr.**
Director Of Reinsurance,
Life Of North America

A two year examination of its own reinsurance requirements for the present and future has led Life of North America to some interesting discoveries and a new approach to life reinsurance.

Edmund L. Zalinski was engaged by the parent North America to build a life organization—as rapidly as possible. To accomplish his objective he had to hire outstanding personnel. But he realized that top life field insurance personnel would normally produce a substantial volume of high average-size policies. This combination of large volume and large policies would lead to the very serious question of retention limits and reinsurance costs. Mr. Zalinski's expectations were correct. After two years the life company has \$300 million of ordinary and group business in force and an average-size ordinary policy of about \$10,000.

Mr. Zalinski asked his actuarial department, headed by Robert H. Jordan, for an estimate of the premium outlay which would be required for reinsurance. The figure reported was of such magnitude that Mr. Zalinski requested his staff to examine all possible avenues by which the company's reinsurance costs could be kept to a minimum.

Late in 1958, he visited leading reinsurers, reviewed present operating systems, premium calculations, underwriting practices, field organizations, premium accounting, and several new developments in life reinsurance. Since reinsurance information was confined to individual articles or pamphlets, he produced "Fundamentals of Life Insurance"—a booklet which was distributed to company personnel and other interested persons.

Preliminary research revealed that yearly renewable term reinsurance and co-insurance is presently being handled about as efficiently as could be expected. Machines are being put to work to an increasing degree to reduce the administrative handling required. Generally there seemed to be little value in attempting to build a better yearly renewable term or co-insurance system.

The company wondered why the administration of life insurance must be so cumbersome and detailed. It didn't seem possible that the maze of paperwork required on each individual yearly renewal term case could be necessary. Paperwork under present conditions includes calculation of terminal reserves; net amounts at risk and premiums five years in advance; recalculations every five years; and additional recalculations in case of lapses, policy reductions, or the addition or termination of supplementary

benefits.

Most troublesome was the necessity for an extremely laborious process if a ceding company raised its retentions and wished to recapture old business. Life of North America found that many companies often do not recapture their business, simply because it is too much trouble—even though they must pay their reinsurers thousands of premium dollars that they could otherwise retain. This finding applied to both large and small companies. Several reasons were offered to the company's researchers for

not recapturing old business, but in many cases the "good reasons" gave way to the real reason—"too much trouble."

Product Develops

Finally, the development of a new reinsurance product was begun. The laboratory staff included Mr. Zalinski, Rex H. Anderson, marketing vice-president, Henry W. Cook, underwriting vice-president, John A. Diemand Jr., property reinsurance vice-president, William D. Smith, associate actuary, Charles R. Hopkins Jr., reinsurance administrator, Mr. Jordan and Mr. Bonnell. Each phase was tested for practical application. The chief objectives were to overcome the difficulties of administration and premium accounting found in present methods. At the same time the company had to gear itself to offer the

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Describes Variety Of Life Reinsurer Services, Influence In Many Areas

By **BURTT D. DUTCHER**,
Assistant Vice-President,
North American Re

The past year saw steady progress by life reinsurers in the U.S. Admittedly, it is difficult to get accurate data on totals of life reinsurance, since most reinsurers do not give out such information. However, an informed guess would be that the volume has kept pace with the growth of ordinary business during 1959, and in some cases has even increased faster than the direct business.

The mortality, on which life reinsurers depend so heavily for their success, has been within normal limits. As far as expenses are concerned, most reinsurers would appear to be striving to develop methods which would reduce costs to the direct company, as well as to themselves. It is reasonable to believe that continued progress will be made in this direction.

Competition is always keen among reinsurers, and indications are that

it will become more accentuated with the recent announcement made by three companies, with strong backing, of their entry into this field.

Reinsurance Considerations

In 1959 some progress was made on the problem of fitting the type of reinsurance to the needs of a particular direct company. There are three basic forms of life reinsurance—yearly renewable term, full coinsurance, and modified coinsurance—each with its particular advantages and disadvantages. In some direct companies, the type of reinsurance used was selected many years ago, and there is a natural reluctance to change. However, I believe the problem is now being examined as to whether the particular type of reinsurance is in line with modern conditions and is most suitable from the point of view of the direct company.

It is interesting to note that reinsurance embraces the smallest of companies as well as the largest. Retentions, of course, vary by company

and also within any particular company by plan, but in some cases it is not only the retention factor which leads a company to reinsurance. There are other factors—fringe benefits of reinsurance, which certain companies believe are of even greater value than reinsurance itself. Reinsurers realize that their own profit and success depend on the basic question of whether the direct company grows and is profitable. As a result, the reinsurers are attempting whenever possible to help the direct companies. The most obvious field is the selection of risks.

A sound selection of risks is the basis for future profits in an otherwise well managed life company. Therefore, it makes good sense to have well trained underwriters reviewing new applications.

Educational Features

There is probably no better school than a tour of duty for a time within a reinsurance company, and most reinsurers are willing to lend this helping hand. This opportunity to review at first hand the many complicated cases seen daily by a reinsurer, is an education in itself. Other training techniques include the individualized approach, which tailors instruction to a particular need, and seminars, based on the needs of the class.

Probably of equal value to the education absorbed is the formation of long lasting acquaintances in a reinsurance company. The mutual understandings gained by these actual meetings do much later on to help in resolving particularly difficult underwriting cases.

Applications submitted to a reinsurer on a facultative basis require that the reinsurer underwrite even the smallest case. This procedure has often been the backbone of an underwriter's training. He gains assurance. He knows that he can compare his opinion regarding the case with the opinions of others who are considered experts in the field, and he can obtain, if he desires, an analysis of any particular case as to the reason for a decision.

Even well informed underwriters in a direct company like to use a reinsurer, because in certain unusual underwriting situations the reinsurer is very likely to strengthen their opinion by asking advice of leading medical consultants at no cost to the ceding company.

Advantages To Agents

The message of life insurance has reached most people in this country. They are becoming aware of the many companies in the business and also are beginning to learn that there may be an appreciable difference in rates and types of policies. It is becoming more and more usual for prospective applicants to do some shopping around before they purchase a policy.

An agent is more likely to stay with a company which furnishes him with competitive policies, rates, underwriting rules, and other facilities that he needs in selling his particular market.

A reinsurer plays an extremely important role by supporting a ceding company and helping to place agents in a competitive position in most any field.

Reinsurance allows an agent to compete on any case, regardless of size. This is basic in reinsurance, ex-

cept that some reinsurers might be in a position to accept larger amounts more readily than others, due to certain retrocession agreements. A reinsurer can help extend a direct writer's coverage to include substandard business. A reinsurer can aid in training of the agency staff and can help a company add new lines to its portfolio.

Substandard Area

The insurance business deserves praise for the courage it has shown in recent years in writing a higher percentage of substandard risks. This has widened the market for agents, and at the same time has filled a most important social need. This market could not have been covered by so many of the companies without the aid of the reinsurer.

The agent must secure a proper rating for his substandard prospect if he is to fulfill his moral obligation, and also be competitive. Reinsurers have been studying substandard risks for quite some time, some more extensively on one type of risk than another. Their experimental underwriting over recent years has strongly indicated that this business can be underwritten successfully. Their willingness to accept such risks and to aid in underwriting has been a most important contribution.

Reinsurers sometimes will accept the entire risk on a case, if this is the desire of the direct writing company. This places the ceding company in a position where it can satisfy its agents, and at the same time not disturb its own underwriting rules or possibly bring about a situation which might affect its surplus.

Recently there has been a trend by reinsurers to furnish education beyond the underwriting field. The new business of reinsurers is dependent upon the volume submitted by their ceding companies, and they have a stake in the sales efforts. Most all reinsurers, therefore, conduct agency seminars. In these meetings, the top sales executives of various life companies become acquainted with the latest sales methods and gain valuable friendships.

Executive seminars are often held wherein the president or executive vice-presidents of the ceding companies meet for several days and share their ideas in addition to listening to speakers well informed on subjects of prime interest to them.

There have probably been many changes in the various products

(CONTINUED ON PAGE 21)



Burtt D. Dutcher

Mr. Dutcher, assistant vice-president of North American Re, began his insurance career with Connecticut General Life in 1941. He established the new group administration department of New York Life in 1951, and was head of the small group department when he left the company in 1956 to become executive vice-president of General Life of Arizona. In 1957 he joined North American Re where, as an assistant to the president, his duties are varied. Mr. Dutcher established the group section of Insurance Accounting & Statistical Assn. and is now active on the life committee. He is a fellow of Life Office Management Assn., and serves on committees of Life Advertisers Assn.

Two Views Of London Problems With U. S. Risks Agree On Underwriting As Cause

Two views of the London insurance market have been presented in recent weeks. The one by Harold T. Silversides, joint general manager of Yorkshire, in his address as president of Insurance Institute of London, is considered by insurers and reinsurers in the U.S. as a well balanced, factual general assessment of a troubled situation.

The other view is presented anonymously in the Post Magazine & Insurance Monitor under the pseudonym of "an Anglo-American underwriter." After ascribing the difficulties the London market has had with American business to poor underwriting, lack of information, and unwise rate cutting, the underwriter concludes with a description of the American insurer, insured and claims adjuster that has astonished and shocked American insurance executives.

Mr. Silversides urged "a return to sanity in underwriting practice so that this market may maintain unimpaired its immense financial strength and its ability to attract and absorb business from all parts of the world. Improvement must depend on the actions of individual underwriters, both company and Lloyd's, as well as on the conduct of insurance brokers. Both parties are required to exercise considerable restraint if the risk of injury to the long term interests of the market is to be avoided."

Stresses Long Term Interests

Mr. Silversides asked, "Is it not possible for those who work in the various sections of the London market and in various capacities to pay a proper regard to the long term interests of British insurance and to its importance nationally? Can we not by concerted action keep our business in a flourishing condition and continue to provide our clients at home and overseas with service of the standard they are entitled to expect and which traditionally is associated with this market? Can we not guard against accepting through the back door busi-

ness which would not be received through the front? Can we not avoid accepting business as reinsurance on terms which would be regarded as inadequate if direct and deny the use of the marine market in direct competition with the non-marine?"

The "Anglo-American underwriter" stated:

"While the underlying principles of insurance in both countries are the same, the application is as different as cricket from baseball. The American has a very tough approach to insurance and he expects his insurer to act in the same way. Every advantage is taken of technical loopholes, and the insurer is expected to protect himself in the same manner by making every use of technical defenses. While the insurer in this country adopts a very generous attitude toward the insured, the American insurer is unrelenting and will not, if he can help it, allow any quarter. Some of the methods of American claims adjusters would curdle the blood of their British counterparts. This is not an indictment of either method of doing business, but simply a statement of fact. The British insurer should not go into any country and expect that country to adopt customs which are foreign; he should be adaptable and ready to apply himself to any changes that may prove necessary. This he is fast learning to do in America and employs attorneys capable of looking after his interests in the manner expected."

"An American insured does not take out insurance, but has an insurance program. If the claims in any one year of insurance exceed the premium, then he has made a profit, but if the premiums exceed the claims he is making a loss. It is almost true to say that the average American would rather have a claim than earn a no-claim bonus."

(It is this paragraph that particularly appalled the American market. One observer expressed the reaction

(CONTINUED ON PAGE 15)

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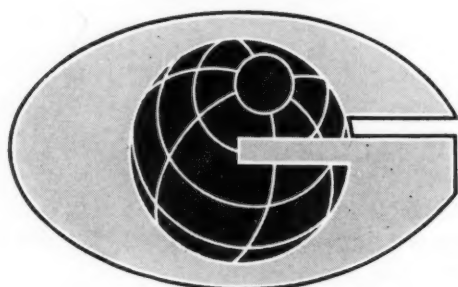
By JOHN L. MAXWELL Jr.

A reinsurer is like a silent partner in many ways. He supplies needed financial backing to the active partner, follows the fortunes of the ceding

company in all matters, and expects to make a profit. Any type of partnership contract can be arranged, and it will continue as long as the reinsurer makes a reasonable profit from it and the company is satisfied that the price

paid is not excessive.

The reinsurance market abroad and the expanding United States market each play a major role in the reinsurance affairs of this country. Both markets have contracted somewhat as



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John L. Maxwell Jr., vice-president of Central Treaty Brokers, reinsurance intermediary and reinsurance manager of Geo. F. Brown & Sons, Interstate Fire & Casualty and Chicago Ins. Co., entered the business in 1954 in the direct writing casualty field with the Kemper group. In 1956 he joined Geo. F. Brown & Sons and since



John L. Maxwell Jr.

has specialized in reinsurance of every type from the viewpoint of the reinsurer, reinsured and intermediary.

a result of the underwriting losses experienced in all lines in recent years, particularly in the casualty field.

Many of the remarks herein are equally applicable to fire and casualty reinsurance but this article is oriented toward casualty reinsurance. There are several different types of casualty treaties, but they all fall into two broad classes, either pro-rata or excess of loss.

Pro-Rata Treaty

A pro-rata treaty provides that the reinsurer will be the ceding company's partner on the classes of business covered by the treaty, and automatically assume a fixed proportion of every loss beginning with the first dollar of loss up to the maximum limit provided.

This type of cover is known as a quota share treaty. The amount ceded may vary from as little as 10% to as much as 90%, depending on the particular arrangement. From a reinsurer's viewpoint, the desirability of a treaty increases as the ceding company's retention increases because the direct insurer's opinion of the class of business covered is reflected in its retention. Retention is defined herein as money which comes out of the ceding company's pocket. However, no consideration of a company's retention would be complete unless it is related to the company's surplus.

Consider Desirability Of Risk

In considering desirability of risk, the larger a company's surplus, the more suspect a small retention would be. Consider two companies, one with a surplus of \$100,000 and the other with \$1 million. A 50/50 quota share treaty of 5/10/5 BI, PDL limits would expose the primary insurer to a possible maximum loss of \$7,500 per accident involving both BI and PDL. Such a loss would be equal to 7½% of the smaller company's surplus, but only .75% of the larger company's surplus. Assuming both companies are sound financially, if each wished to retain the same amount in the example, namely 50%, the smaller company would probably be the better

(CONTINUED ON PAGE 22)

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Agree On Cause Of London-U. S. Problems

(CONTINUED FROM PAGE 12)

that if this is truly characteristic of the underwriter's experience with U. S. insured, and not an exaggeration to ease some of the criticism that has been directed toward Anglo-American underwriters generally for their mishandling of American business, then this underwriter must have accepted an unusually large number of the very poorest U.S. risks.)

"Often in the early days the British insurer incurred the wrath of the American insurer by making rather generous settlements. Insured was very quick to take advantage of what appeared to him to be weakness. Many claims were paid then which, in the light of experience, would not even be considered today. Early mistakes were expensive, but much of the expense could well be put down to advertising or charged as a fee for lessons learned.

"It is true that some London insurers went into the business with the wrong mental outlook, but they have learnt very quickly as a result of bitter experience. Policy forms have been tightened up and the methods of rating overhauled; some insurers are even considering an audit system to ensure that premium adjustments are forthcoming."

Rest Is Closer To Realities

The remainder of the Anglo-American underwriter's description of the American business sounds a good deal closer to the realities of U.S. business. In substance he states:

While a large proportion of the business that goes to London from the

U. S. is substandard in construction, there is a hard core of better class business. Certain capacity risks are offered at reasonable rates; others go to London because of the lack of domestic market. Some excess casualty risks are worth having, though all too often the London market has been blinded by a high excess and asked rates far below those which could be obtained—and which "are fair, considering the greater exposures which exist in America." He praises the boiler and machinery line and bankers blanket bonds, especially.

Even if many of the fire risks are substandard in construction, if all the normal rules of careful selection, variety of line, sensible approach to rating, and thought in selection and application of policy forms are observed, a profitable and useful account may be built up. If these standards are ignored, the result will be bad whatever the country.

Use of the London market by U.S. brokers and companies provides competition and contributes to original thought; also, if London insists on proper rates, U. S. insurers will have more ammunition in their struggle with insurance commissioners for long overdue rate increases. He emphasizes proper and adequate rates.

Cautions Underwriters

Commission terms must be closely watched, and the underwriter must not become the victim of broker inefficiency. The underwriter must dictate at what terms and under what conditions he will accept a risk. He can do this only if he receives the

fullest possible information. In recent years, underwriters, without information, have tried to guess the right rate. The fault has been laid at the door of the broker, but this passes over the fact that only the underwriter can insist upon the information before he writes the risk. If he insists on full information, the broker will produce it.

Questions Ability To Profit

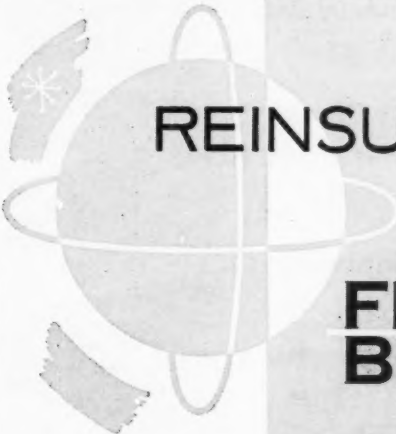
As to rating, if four to eight points is as much as can be expected in good years, how can the underwriter profit when he cuts the rates 20%? At present, some underwriters are stating they will not accept risks at less than three or four times manual rates. But this may invite the substandard and keep out the reasonable risk.

The underwriter doesn't believe that confining London business to re-

insurance is wise, though it is essential that some reinsurance be written. It can, he says, never be right for an underwriter to follow the judgment of another all the time, and a certain amount of direct business must be written to inject some individuality into the account.

"If the results of the direct insurer are bad, the results of the reinsurer must be slightly worse; even on an excess of loss basis where this is not necessarily true, it has been found that the bad times outnumber the good. While the overheads of many London insurers are lower than those of the American domestic company, it is extremely unlikely that they are low enough to balance the disadvantageous factors."

He believes that London is not foolish in continuing to write American business.



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Bonnell Traces Reinsurance Discoveries Made In Life Field, Novel Approaches

(CONTINUED FROM PAGE 11)

same top quality service through which U. S. reinsurers have for years provided other companies with guidance in all phases of life operations. Field work produced testing data. As the volume of information grew, even more interesting features were revealed, and the staff refined the product in the light of new findings.

John A. Diemand Jr., in charge of the parent North America's property reinsurance operation, added his experience to the research effort. He reviewed standard life reinsurance procedures and explained that individual risk accounting had been discarded by property reinsurers years ago. Property reinsurers treat past claims experience as a gauge of things to come, and while such predictions may not be entirely accurate with a particular company in a given year, they have proved sufficiently correct for a spread of business to permit fire and casualty companies to eliminate premium accounting on individual risks and still operate on a profitable basis.

In their examination of the property reinsurance operations, the life company investigators found that this trend approach to reinsurance premiums was practical, with surprisingly small margins. The explosive character of the fire and casualty business, where a windstorm or explosion can knock previous loss ratios into a cocked hat, made the practicability of the trend approach even more interesting because of the more predictable character of life insurance claims. It seemed logical that these same principles could be applied in calculating reinsurance premiums for life business.

The life company set out to develop

a method of reinsuring life business by projecting past claims experience on a book of business into the future. But they hit a snag. Life reinsurance treaties in force today in the U.S. generally do not permit the transfer of a block of business from one reinsurer to another. Ceding companies can recapture reinsured business after a considerable waiting period when they revise their retention limits, but transfers are not permitted by contract. There were many good reasons offered for the inability to divorce a present reinsurer, but whatever the reason, this restriction leads to unusual situations. For example, there is a substantial midwestern company which presently reinsures with two companies, but must keep current the accounting records applicable to more than a half a dozen other reinsurers. This is due to the fact that at some time in the past it had reinsured with these companies one or more policies which are still in force. The only contractual way to avoid such accounting complications is to raise retentions high enough to recapture all old business or to have the reinsured policies lapse.

Old Business Not Transferable

Since old business could not be transferred to Life of North America, no book of business could be assumed on which past claims experience had been established. Some other way to estimate expected losses was required. Attention focused on the yearly renewal term premium, which places a price tag on the outstanding risk for one year. Since these premiums had served reinsurers profitably over a period of years, they were useful as an indicator of the type of premium needed to cover the outstanding risk.

The company plotted the average yearly renewal term premium rate per thousand, paid in the past by ceding companies. The character of the ceding company's business should remain stable enough over a short period of time to lend credibility to the extension of this graph. Certainly this rate would be as stable as the claims experience on a book of reinsured fire and casualty business. This rate, applied to a volume in force, should produce a premium satisfactory to both reinsurer and ceding company, particularly since the premiums include a provision for an experience refund.

Innovation In Business

In the rare instance where a satisfactory rate cannot be agreed on by Life of North America and the ceding company, the client has the privilege of transferring his reinsurance business in force to yearly renewable term with Life of North America, or

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even to another reinsurer. This is an innovation in life reinsurance contractual relationships in this country on this type of business. The company intends to offer its clients a superior service, but feels that any client who is dissatisfied should be able to pick up his marbles and play in another yard if he can find a more attractive game there. After a careful examination of the company's estimated operating expenses, it was felt that the added incentive of a discount could be applied to this projected yearly renewal term rate for qualifying companies with a reasonable claims experience.

History Requires Review

Since the projected premium rate history is not reliable too far into the future, it requires review. Its proper level is determined by comparing it with the actual claims experience on business reinsured. In addition, the expected rate in any one year is adjusted in accordance with actual claims incurred, modified to prevent excess fluctuations and to reflect the credibility of the claims volume as experience develops. Although the premium produced may not cover the reinsurance claims incurred by a single company in a single year, this fact merely reflects the insurance element in the program. As in any insurance, however, it is a spread of risks in a spread of companies which produces satisfactory results.

Yearly renewal term loading factors were extremely difficult for the research team to identify. After a consideration of many factors and reports, however, overwhelming evidence indicated that yearly renewal term loadings were substantially higher than those required under Life of North America's new reinsurance system—Simplematic Re. In several instances it was felt the loading factor for Simplematic Re on a company's established book of reinsured business would be 40-50% below the normal yearly renewal term loading patterns, and some companies' claims experience produced even more start-

ling results.

It should be noted, however, that each company's experience is different, and the cost of service, particularly in a company's formative years, is certainly an important consideration.

Administration Is Lessened

In addition to the obvious dollar savings which result from reduced premiums, administration for many ceding companies is also substantially lessened. Calculations are no longer needed for terminal reserves, net amounts at risk, and individual premiums for the basic policy and supplemental benefits. Cessions are eliminated, recapture is reduced to a mere notice of new limits to the reinsurer and can take place at any time. The savings from this improved recapture provision alone can be worth many thousands of premium dollars and man-hours to a ceding company.

To make the idea even more attractive, business can be included under Simplematic Re either on an automatic or a facultative basis, thereby giving the ceding company the advantage of 75 man years of underwriting experience represented by the company's underwriters and doctors who handle reinsurance cases.

Will Bring Life Up To Date

The company believes that Simplematic Re is not only an idea new to the life business but that it also reflects proved property insurance practice and is designed to bring the life business up to date with its fire and casualty associates. It should be noted that some companies may not qualify for Simplematic Re at this time, but Life of North America offers them a convertible yearly renewal term arrangement which will permit the transfer of business to Simplematic Re at a future date. The company is continuing research in order to make the facility available to more and more companies. It is also investigating new methods for easier and more efficient ways to fill the life reinsurance needs of ceding companies.

Reinsurers Eye Effects Of Market Emphasis On Insurer Underwriting

(CONTINUED FROM PAGE 10)

accidents they had had in five years, what kind, and whether they had filed claims against the company or someone had filed claims against them. Against the company's records, 90% of the answers were incorrect.

The reduction in rates for the new compact American cars is symptomatic of action being taken today for mar-

keting reasons that do not find much, if any, basis in underwriting fact. There is no real proof, according to underwriters, that the compact car causes less damage when going fast than the larger car when going fast. Even the physical law of mass times speed and impact becomes academic. If a car traveling 60 miles an hour

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hits another car or a fixed object, it is difficult to measure the difference in effect between a car weighing 3,000 pounds and one weighing 4,000 pounds.

A few insurers have written enough foreign cars to make them believe that they have statistical evidence to show that the compact car, as such, produces a better experience than the larger automobile.

However, the foreign automobiles that produce a 10 to 15% superior ratio are sedans, and only selected ones at that. The foreign sports car isn't any better risk than the American large car, and may be worse, though it is a "compact car."

The suspicion is raised that the size or style of a car has little or nothing to do with the matter; that the difference here, as it is throughout the entire auto insured population, is made by the driver. Those who buy and drive sports cars, in general, are not as good risks as those who buy sedans, in general.

This view is buttressed by an underwriting observation that those who bought and operated smaller, more compact automobiles of American make before the advent of "compact cars" were men of such means that they had to be careful of their expenditures, who needed to husband their resources, and who were careful about other things than money, including driving. They tend to fall into the same income category, somewhat under the median of the middle income bracket.

Lower Verdicts, Perhaps

Additionally, such driver-owners are not apt to be subject to quite such high verdicts as the owner who obviously has money because he drives a big car—and exhibits other evidence of being well-to-do. This view is modified by the fact that the big car in recent times has become less of a status symbol than it used to be. (That is one reason the American auto manufacturers are swinging to the compact car, after some disappointments with larger cars.)

There is some logic to the idea that the man who has to husband his resources because he does not have any to throw away is likely to be careful in other ways. This could, though, be projected beyond logic. If the solid middle class citizen who has to watch money and is a good automobile risk likes the six months payment because it is hard for him to get up the full year's premium, more of the same kind of risks might be attracted by a quarterly payment for the same reasons. But a monthly payment plan could begin to pick up those who are so hard pressed to meet their obligations that they have to use every means with which they can get by to keep going, including claims not justified by the facts, and other "carelessnesses."

Another auto problem which may be intensified by the emphasis on marketing is the assigned risk. AR plans currently are costing insurers millions, and the number of assigned risks continues to mount. This demonstrates that the free insurance market has not been able to keep pace with the number of drivers. It has not learned how to handle problem classes or risks. The rating structure has been too inflexible. The problems have grown faster than the solutions. There is enough talent in the business to solve the problem if the business comes to grips with it. So far, the business has only tackled the periphery; has not aimed at the heart of the matter. But presently there are signs that it intends to effect a solution by taking action commensurate with the

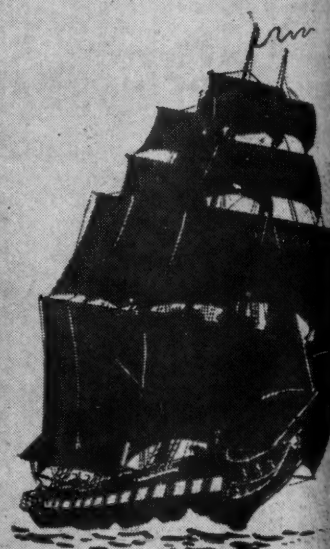
size, complication and velocity of the difficulty.

This may well take the form of one insurer supported by the entire business which would write AR business exclusively. But the business appears at last to be determined to make assigned risks pay their own way. At the same time, it is hoped, the industry will evolve a system that will permit more risks presently being assigned to be insured in the free market. Otherwise, there definitely is a danger that the plans will get so big the state will take them over.

If marketing efforts put insurers in unusual—and therefore experimental—underwriting situations, they are going to need all the good advice of the reinsurers they can get. At least reinsurers know more bad things that can happen to the insurers, since they have observed more bad things occur than the management of the one insurer. Besides which, the reinsurers exhibit genuine concern over the well being of insurers and their operations, at times what seems to be even more concern than the management of the insurers themselves—and very often they know and can advise in the application of tested remedies with which the insurer may be unfamiliar.

The Constitution Insurance Corporation

REINSURANCE



Henri G. Ibsen, President

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Traces Importance Of Facultative In Reinsurance Today

(CONTINUED FROM PAGE 9)

tion, which can only result in an improved insurance contract for the risk.

2. The resulting spread of information regarding new modern exposures, which tends to further the education of the entire insurance market, which results in more speedy and proper decisions concerning exposures which may be protected, exclusions which must be enforced and of course a consolidation of ideas regarding proper rating.

3. The removal of these unusual or problem type risks from automatic treaty protection, so that the reinsurance program of the ceding company on its normal business is not interrupted or unduly affected by these unusual covers.

Risks of the medium or large size are usually best protected by facultative reinsurance. It is a law of our business that as the number of risks of a certain class increase, enabling the insurer to have had sufficient time for study and analysis of the exposures in that class and to develop proper policy coverages and rating, these risks are no longer isolated but become a standard classification. During this period of development the practice of the facultative reinsurance theory is sound.

These remarks have not been confined to any particular type of business, but rather are meant to pertain to at least all forms of casualty, fire and inland marine.

Most Use Treaty Facilities

The placement of this facultative reinsurance is with the foreign and domestic markets, which, for the most part, subscribe to the treaty facilities, so that in effect the experience for both methods of reinsuring is aggregated by these markets. However, the premiums ceded to the reinsurers on the facultative business are based on rates agreed between the parties, and may be amended, if necessary, much more easily than treaty rates. The ceding company is in a much improved position to negotiate individual risk rates, where required; the reinsurer is also in the position of accepting or declining the individual risk and of participating in the rating he thinks proper for the exposure.

Today's insurance markets must be prepared to accept the risks produced by this modern age; and during the analysis or study period of this new, sometimes unusual, sometimes sizable business, the use of the facultative reinsurance method can prove beneficial to all parties concerned.

N. Y. Board Of Trade Picks Officers; Meares Reelected

The insurance section of New York Board of Trade, at its 20th annual meeting, reelected Charles W. V. Meares, vice-president of New York Life, chairman of the executive committee.

Executive vice-chairmen reelected were W. R. Ehrmanntraut, American Surety; Alexander Heid, John A. Eckert; and Rankin Martin, Standard Accident.

Evans At Little Rock

Phoenix of Hartford has transferred William E. Evans, state agent at Jackson, Miss., to the same position at Little Rock. He has been with the company since 1925 and has been a state agent since 1953.

Minn. Supreme Court Upholds Verdict For Excess Judgment

ST. PAUL—Minnesota supreme court has upheld a \$5,979 excess judgment verdict against American General.

Vern Boerger, St. Cloud, taxicab owner, was insured in American General for \$10,000 BI. A passenger in one of his cabs was killed in an accident and her mother sued Boerger for \$17,500 wrongful death.

Before the jury reached a decision, the attorneys for Boerger and American General had an opportunity to settle for \$12,000, with Boerger paying \$2,000 over the policy. The insurer refused to pay more than \$8,000. The jury brought in a verdict for \$17,500, and Boerger sued for the excess judgment over \$12,000, claiming American General's attorneys acted in bad faith when they rejected the offer.

The supreme court said legal precedent requires an insured to give at least equal consideration to the interest of its policyholders when trying to compromise a case.

Court Holds MDs Can't Guarantee Cure

ST. PAUL—Minnesota supreme court, upholding a defendant's verdict in a \$50,000 malpractice suit, said a doctor cannot guarantee a cure.

"A physician is not an insurer of a cure or a good result of his treatment or operation," the court declared. "He is required to possess the skill and learning possessed by members of his profession in good standing in his locality and to exercise that skill and learning with due care."

The plaintiff suffered a leg injury and charged he was treated negligently and unskillfully by Dr. R. A. Tweedy of Winona, a general practitioner. The plaintiff charged Dr. Tweedy should have called in a specialist.

To uphold the idea of having a specialist consulted, the court said, would "impose on every general practitioner the duty of consulting with a specialist on every conceivable complication."

W. H. Wagner Becomes Lord Agency President

CINCINNATI—William H. Wagner, who has been executive vice-president



W. H. Wagner

of W. E. Lord Co. here since 1955, was elected president of the prominent 45 year old agency. The office had been vacant since the death of Mrs. W. E. Lord early this year. Mrs. Lord had succeeded her husband, founder of the organization, who died early in 1958. Donald O. Knapp, who has been with the Lord agency since 1952, is secretary.

Mr. Wagner joined the Lord organization as a soliciting agent in 1932, after having spent some time in the textile business. He became fire and casualty manager in 1933 and vice-president in 1955.

William A. Fluty has joined Peerless as a surety underwriter. Formerly a contract bond underwriter of Hartford Accident, Mr. Fluty is a son of Holly W. Fluty, vice-president and counsel of General Re.

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Reinsurer's Role As Dutch Uncle Part Of Professional Function

(CONTINUED FROM PAGE 8)

avoid a trip down the garden path toward insolvency. Company men in their dealings with reinsurers ought to invite help and advice from this valuable source, and should realize they are not in good hands if the reinsurer lacks skill or courage in performing this Dutch Uncle function.

Maybe the reinsurer's life is not always easy, but, in the current lingo, things are pretty tough everywhere. One cause of misunderstanding between reinsurer and reinsured arises from their dissimilar cycles of experience. There have been many periods in the past when results were good on one side of the fence and bad on

the other. Rate levels may be sufficient over-all, yet basic limit premiums may be too high or too low, while excess limit charges may be the opposite. Then there are the old problems of insurance-to-value, late reporting of potentially serious claims and inadequate provision for unreported losses. These and other factors are matters of concern to both reinsurer and reinsured. Whenever one of them emerges as a sore spot in the primary or secondary picture, the situation calls for wise counsel from the reinsurer and willing cooperation by the company, all in the best interests of both parties.

There was a time years ago when some underwriters in company ranks looked upon reinsurance not so much as a cover in the technical sense but more as a cover-up for their own mistakes. That was when facultative cessions were more generally customary than is now the case. Today most reinsurance is ceded on a broad, automatic treaty basis, usually without room for picking and choosing by the primary writer. Moreover, the assuming carrier does not get enough facts, in the ordinary routine, to assess the character of risks covered. This area is likely to remain in complete darkness until trouble occurs. That is, unless the reinsurer is staffed by men skillful enough to keep abreast of things, by ingenious methods, and tasteful enough to take effective action when necessary.

Depends On Contract

A good working arrangement between these two segments of the insurance business depends in large measure on a well-drawn contract. Every effort should be made at the outset to have a meeting of minds on fundamental objectives and a clear understanding of all procedures. But the modern trend toward simplicity of such arrangements will leave the reinsurer out in left field if it does not have a corps of experts trained to deal with specialized problems of the secondary market. Which explains, of course, why so few companies attempt to operate both as insurer and reinsurer.

I have the highest respect for the institution of reinsurance, and yet always enjoy hearing a snide comment on the loftiness of that noble profession. A few years ago I invited an officer of an Eastern reinsurance company to play golf at my club. Another distinguished member of the foursome was connected with a big mail order house in Chicago, and knew nothing about the upper strata of the insurance business. In making the introductions I explained politely the nature of reinsurance. Whereupon, with the quick insight or perversity of hard-sell merchandisers, my mail order friend blurted, "Oh I get it, John is in the second-hand business." This de-bunking of his professional status shocked my Eastern friend, and left a little scar on his escutcheon that is still sensitive to gentle probing.

Seriously, I doubt whether there is as much pomposity among reinsurance people today as on the other side of the fence. It is fast disappearing

in both places and rightly so. For there is no surer way to fade completely out of the insurance scene than to live quietly and dream of past glories. Keen minds, stout hearts and robust guts are needed to cope with uncouth demands in all branches of the business today. It is well known that agency companies and their field forces have been slow waking up to the realities. Though much less publicized, I believe the same criticism can be made of reinsurers, for they too have continued to push some old shop-worn merchandise.

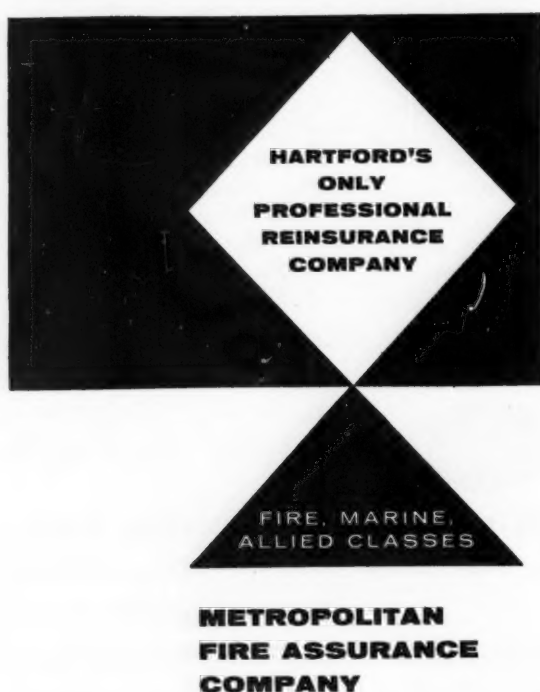
Methods Are An Example

Example of this is found in their methods of dealing with new problems arising from the extension of underwriting powers. When the big casualty companies branched into fire lines, many of them got the same advice from reinsurers as would be given to a brand new company just starting in the risk-taking business. Now I admit that much of this advice was good and proper, and came strictly within the Dutch Uncle function. Reinsurers had to tell the casualty boys that fire is a horse of different color and involves many factors strange to the liability business. Most important of all, they had to help client companies get good men and adopt sound methods for handling the new lines. But I question whether they were right in the degree of emphasis on participating vs excess reinsurance, and even on low company retentions except for the catastrophe covers.

In all fairness to reinsurers, it should be said the new fire men hired by the casualty companies went right down the same line of thinking. This was impressive to the old new-comers. But some of the skeptics were perplexed whether it was a reflection of profound insight, or perhaps (forgive me) a huge payola conspiracy. In those days you heard an awful lot of mishmash about things that must not be done until you get a book of business. Seemingly this was based on the notion that reinsurance should be keyed to avoid, at all cost, any likelihood of net loss for each separate line of business. My feeling is that a seasoned company properly staffed for writing a new line can retain for its own account as much as if it had always written that line, provided it maintains a proper relationship between retention and surplus.

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nobody could possibly take his place. Another thing, I am sure that the needs of our primary-writers can best be supplied by reinsurers licensed in the American market. This does not disparage the important service rendered by Lloyds of London. Its proper place lies neither in the direct-writing field nor in the reinsurance of primary carriers, but rather in providing a strong, stable market where licensed reinsurers can obtain top limits protection. Indeed, the American reinsurance market could hardly survive unless the professionals in that market had access to a big reservoir of protection overseas. But there are too many day-to-day matters where the primary carrier needs quick, firm commitment from its reinsurer to rely upon a direct pipe-line connection with the London market.

Pipe-Lines Cause Difficulties

It is common knowledge that many of the pipe-lines to London are pretty shoddy affairs, and often cause serious difficulties. This is especially true in countless cases where the foreign cover is provided only in part by Lloyds. The balance (frequently the major part) is provided by "Other Companies," about whom little or nothing is known over here. A recent failure of one such reinsurer, illustrates the weakness of this "remote control" method of placing reinsurance. Other failures are said to be imminent. The London market should be left to the professionals.

Perhaps, for selfish reasons, I

should not urge reinsurers to act as technical advisers to their treaty companies. But I guess there is enough confusion in the business these days to make work for all of us professionals. We thrive on complexities and are hired because of our experience and perspective. Each day's mail brings in a new crop of problems to every branch of the business. And things will keep on getting tougher for any company or agent lacking the means to deliver a complete package of protection at competitive prices. These new demands strike terror in the hearts of the old die-hards, but set fire to the imagination of younger men taking their places. A thrilling sight to behold—this challenge to the genius of new blood and brains reaching the management level—and its acceptance with vigor and enthusiasm.

Young Men Show Promise

Solid basis for optimism can be found in the calibre of young men showing high promise in every organization. By and large they are better educated for thinking in broad terms, and better trained in the technical side. They are willing to work but find fault with the old ways and try to improve them. The young bloods are not responsible for the present confusion in our business—you can blame our customers for that—but the restless spirits coming into top ranks show respect for the wants and needs of the buying public. These are the young lions who will lead us out of the wilderness.

Describes Variety Of Life Reinsurer Services, Influence In Many Areas

(CONTINUED FROM PAGE 12)

sued by the life business during the last 15 years than in the previous 50. In developing these new coverages, most life companies seek considerable advice before making final decisions. A large company usually has enough specialists to explore all aspects relating to a new product. A smaller company generally will turn to consultants or to other companies for counsel.

Consultation Valuable

If the product is a whole new line, even the largest companies generally have no one with the experience necessary to evaluate all its possibilities. In these cases they generally hire a technician who is knowledgeable on the subject. Before a final decision is reached, it is quite usual to ask the reinsurer for an opinion. In doing business with so many companies a reinsurer usually has developed considerable experience with the new product and quite likely may already be accepting such business.

Some companies spend much time with their reinsurer in these preliminary stages, reviewing new policies with the actuaries, discussing administrative procedures and even inquiring concerning trained personnel to start the venture.

Expenses of administration in the life companies are having an even greater influence on profit margins. The reinsurer is continually placed in an advisory position, ranging from establishment of a new company to the type of electronic equipment which would be most suitable.

Other Services

When it comes to forms and procedures, it is natural for a reinsurance department to suggest that the ceding company take a look at the procedures in use by their direct writing department. A reinsurance company

takes the approach that one system cannot best suit all needs, and therefore arranges for visits to a company of similar size. It may also develop an extensive file on the subject to be available for reference. One company not only arranges visits and keeps voluminous files of forms and procedures, but also gives seminars in work simplification.

Outpaced Executive Development

The rapid growth of the life business has outpaced the development of experienced executives required to head new companies and departments. A reinsurer is unique in that it has developed contacts with almost all life companies on the continent, and therefore has knowledge as to those persons who wish to change positions or those who can fill certain highly specialized posts. Companies searching for executives often find their request is timed with an executive change within another company. This can work to the advantage of all parties.

Would Require Book

To cover the many other services, and unusual and intriguing situations in which a reinsurance company or department may become involved could easily require an article of book size. No two situations are identical, and flexibility to adapt itself to the problems of a particular ceding company is paramount with a reinsurer. Problems of new companies, small companies and the giants naturally differ greatly, but even so, many of these executives need someone outside of their company to whom they can turn for understanding and sympathy. Being so closely involved with many of these problems is what makes the reinsurer truly a strong support in time of need.

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How Reinsurer Serves Insurers Today, With What Forms, Rates

(CONTINUED FROM PAGE 14)

risk because the amount retained would be so much greater in relation to its surplus.

Tight underwriting control would be a must if such a company were to survive. Actually a small company as described would probably wish to retain 20% and cede 80% of each and every risk and still be a better company to reinsure than the larger company which might retain 80% and cede 20%. The smaller company's 20% would be \$3,000 or 3% of its surplus, compared with the larger company's 80% which would be \$12,000 or 1.2% of its surplus. The impact of a \$7,500 loss on the smaller company would be almost three times as great as the effect on the larger company, even though the smaller insurer only retained one-fourth (20% of 80%) as much as the larger insurer. These remarks are by no means intended to imply that this is the entire story. Many other factors must be weighed in each case.

Premiums are shared in the same proportion as losses, except for the

amount deducted from the reinsurer's premium known as ceding commission. The ceding commission was originally intended to reimburse the ceding company for expenses incurred in writing the amount ceded, such as agent's commission, bureau fees and taxes. Initially, the benefits derived from being able to write larger lines with reinsurance treaties was sufficient compensation for the ceding companies. But eventually the idea arose that the companies should also obtain enough ceding commission to allow them a margin of profit. In the final analysis, the ceding commission is the amount the reinsurer agrees to pay to participate in the ceding company's business. The amount paid to the reinsurer, after deducting the ceding commission, is known as net premium.

A realistic reinsurer will not pay a ceding commission greater than the ceding company's loss ratio can support. If a company has developed a loss ratio of 70 over the last three years, it is apparent that a reinsurer

paying more than a 30% ceding commission for the next year could anticipate a loss unless the ceding company's underwriting experience improves.

Any company will attempt to show, usually in good faith, that changes have taken place which will improve the future experience, and perhaps this is one of those times when an intermediary serves to best advantage. If the ceding company is too optimistic in forecasting the next year's experience, an intermediary will counsel and caution the company to temper its optimism, keeping in mind the problems possible in future negotiations if the improvement doesn't materialize. An intermediary can advise a company on the best reinsurance program available to meet the objectives of management and perhaps prevent the management from taking steps which would prove unwise.

New Companies And Pitfalls

The absence of proved experience is one of the pitfalls a reinsurer must consider in accepting treaties from new companies. Often the managements of such companies desire a high, usually unrealistic, ceding commission and frequently the reinsurer loses money. Such a result can be anticipated if one considers the problems of a new company breaking into an agency, particularly with regard to accommodation business, and the time required to develop premium writings sufficient to pay losses incurred and return a profit.

Knowing the problems of a new company, an intermediary generally can work out the best possible reinsurance program for the company on terms that provide a reasonable expectation of profit to both the reinsurer and the insurer. An intermediary's past experience can save a new company's management from making the same errors other companies have made.

The ceding commission ultimately paid is a matter of negotiation and a ceding company will be able to secure higher commissions when loss ratios are good. When higher commissions are paid in the good years, less profit is left for the reinsurer. When loss ratios are poor, a ceding company is least able to stand a cut in commission and frequently will not take a reduction if any other alternative is available.

While a reinsurer approaches the question of ceding commission from the standpoint of the loss ratio necessary to support the commission, the

ceding company generally decides on the required commission by determining its expenses in handling the business ceded. In the past, competition between reinsurers has permitted many companies to obtain a higher commission than is required by expenses, often instigated by the competitive reinsurer rather than the ceding company.

Even if the ceding commission is properly adjusted downward as loss ratios climb, the reinsurer still loses more than the insurer at such times, because the ceding company generally will wish to retain less and cede more in an adverse underwriting cycle. Hence, the reinsurer carries the biggest burden when underwriting experience is bad. Conversely, when underwriting experience is good, the ceding company generally wishes to retain more of each risk for its own account. This reduces the amount ceded to the reinsurer with a proportionate decrease in the reinsurer's profit.

In the last few years several companies have reentered the market as reinsurers and several others have entered the field for the first time. While treaties do not change hands frequently, particularly the more profitable ones, the increased number of reinsurers and the profitable results just prior to 1956 both tended to force ceding commissions upward. Approximately two years ago, reinsurers began to feel the effects of the unfavorable loss ratios developed since 1956, and the trend has changed, often drastically, into one where the ceding commissions paid have been progressively reduced.

Eighteen months ago, it was still possible to arrange a quota share casualty treaty at a flat ceding commission as high as 42½% plus a 10% contingent commission. Today the top flat ceding commission is 37½% and in some cases goes down as low as 27½%. Many reinsurers have stopped writing quota share casualty treaties altogether. This is a considerable change from years gone by when reinsurers were anxious to participate in a quota share arrangement because of the large premium volume declared under this type of treaty. However, reinsurers have learned, as insurers have, that premium volume alone does not produce underwriting profits.

Sliding Scale Commission

Many reinsurers still writing quota share casualty business have insisted on using a sliding scale ceding commission rather than a flat commission. Since the reinsurer determines the amount of commission it will pay from the loss ratio, and the ceding

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company determines the commission needs from its expenses, a sliding scale is frequently the only way agreement can be reached if the treaty is to continue in force. Various scales are used, but the idea is to tie the commission paid to the loss ratio. The spread between the high and low commission can be as much as 15% or even higher, but a higher spread is not common. The minimum commission must be low enough to allow the reinsurer a profit not only in an average year, but even in a fairly poor year. At least one reinsurer has expressed the opinion that he didn't care how high the scale went as long as it went low enough. But a scale that is too high would not allow the reinsurer to participate properly in the good or exceptionally good years because the ceding company would receive all profits in excess of the 7½% spread. If the reinsurer allows himself 10% the reinsurer allows himself expenses before applying the scale.

Should Not Limit Loss

The result would be no limitation on the amount the reinsurer could lose in a poor year, but a definite limit on the amount it could profit in a good year. A spread of 15% would allow both parties to share in the profitable years on an equal basis.

Sliding scales provide that for each percentage of decrease in the loss ratio, the commission goes up one-half of 1%, or some such variation of the kind that as the loss ratio goes up the commission goes down and vice versa, subject to a minimum and maximum commission.

The ceding company charges the reinsurer with the minimum commission. If the reinsurer's commission is processed, so if the reinsurer doesn't produce a particularly favorable loss ratio, the company won't need to repay commission already received.

However, if the ceding company is financially sound, both parties will desire to set a provisional ceding commission at some point between the minimum and the maximum. The ceding company then faces the possibility of having to return part of the commission at year end, but the value of the arrangement lies in this fact.

The sliding scale has never been popular with the ceding company. The principal objections are that the company doesn't know what it can count on, a delay in settling the final commission when the contract terminates, and last but not least the minimum commission in the scale is generally less than the company's expenses incurred in writing the business. In other words, if the company would develop an unfavorable loss ratio and earn only the minimum

commission, it would stand to lose the difference between the expenses incurred and the commission received on every risk written under the arrangement. This prospect is particularly unpalatable in a year when underwriting experience is poor.

Some Can Operate

Some small companies can operate without pro-rata reinsurance but it is difficult. Such companies not only require the additional capacity necessary to compete with larger companies, but they also require surplus relief if they are to write a respectable premium volume.

Since a company must set up an unearned premium reserve equal to 100% of the premium when it is written, and the full producer's commission and all other overhead expenses are charged to the company immediately, these costs must come out of surplus and the surplus must still remain large enough to support the volume of business transacted. In determining the adequacy of a company's surplus in relation to its unearned premium reserve, the rule of thumb guide most often mentioned is a dollar of surplus for each dollar of unearned premium. This is merely a guide because a ratio between surplus and unearned premium reserve adequate for one company may be wholly inadequate for another. A company writing primarily short term policies would convert unearned premiums to earned premiums faster and hence generally be safer in assuming a greater unearned premium reserve than a company writing long term business.

Provides Surplus Relief

Pro-rata reinsurance provides the surplus relief required by the primary insurer because the reinsurer assumes that portion of the unearned premium reserve applicable to his portion of the limits assumed, the ceding company receives the ceding commission immediately and it goes right into the company's surplus. The result is to reduce the unearned premium reserve by the amount of reinsurance, and increase the surplus by the amount of ceding commission, all of which enables the primary insurer to write a larger premium volume than would otherwise be possible.

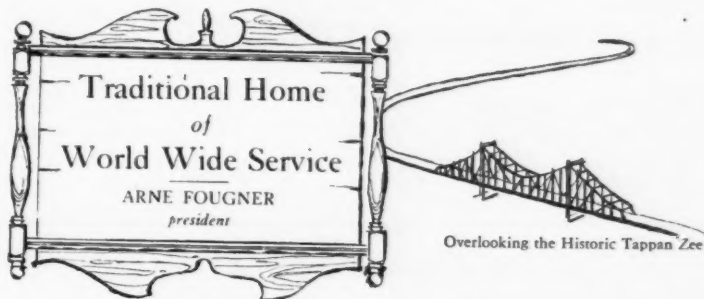
The question of admitted versus non-admitted reinsurance is a separate subject in itself; suffice to say, in order to take credit for reinsurance the reinsurer must be acceptable to the state insurance commissioners in the states in which the ceding company does business.

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to absorb growth of premium volume, there is really no justification for a company reinsuring business on a pro-rata basis. The latter treaty is then generally used only for new classes where the company has no record of experience or where a small premium volume in a class does not provide a creditable spread.

Contracts Usually Required

Excess of loss contracts are usually required whether or not a pro-rata treaty is carried. Many different forms of excess of loss contracts may be written but they all provide that the ceding company pays all losses up to a certain amount, either on an individual risk or arising out of one event. The amount under which the ceding company pays all losses is referred to as its retention, and the reinsurer pays nothing until the ceding company pays the limit of its retention.

When the retention is a comparatively low amount, it usually applies to each individual risk. As the size of the retention increases the treaty becomes a catastrophe treaty which is nothing more than an excess of loss treaty written in excess of a retention high enough to indicate a catastrophe before the treaty becomes involved, either on an individual risk or arising out of one event.

Today, a company must retain at least the first \$10,000 on each individual risk before the reinsurer steps in and pays generally 90% of the loss in excess of \$10,000 up to the maximum limit provided by the treaty. The reinsurer generally will not participate for more than 90% of the excess limit, and the ceding company must retain a portion of the excess limit as a safeguard against indiscriminate writing of higher limits, and a possible disinterest in the size of claim settlements made once the basic retention is exceeded.

Arranged In Layers

Excess of loss treaties are arranged in so-called layers to reach any limit of liability desired. The first layer might go up to a maximum limit of anywhere from \$100,000 to \$300,000. A treaty providing a maximum of \$300,000 would be referred to as providing 90% of \$290,000 excess of \$10,000. Any one of the three elements can and does vary. Actually a \$290,000 limit would probably be too high for most companies unless they were able to reduce their participation from 10% to 5%. A 10% participation would mean the ceding company's retention on a maximum loss would be \$10,000 plus \$29,000 or a total of \$39,000. This is more exposure than most smaller companies would want to retain. In fact, the first excess of loss treaty of most companies retaining \$10,000 will not generally exceed a maximum limit of \$150,000.

So-called second and third layers, and more if necessary, are generally arranged as 100% reinsurance because the ceding company's participation in

the first layer is generally considered sufficient to dictate prudent underwriting.

Some excess of loss treaties are written on the basis of the reinsurer being paid the manual increase premium and with the ceding company receiving a commission in much the same fashion as under a quota share treaty. In other cases, no ceding commission is paid on an excess of loss treaty and there is no pro-rata sharing of premiums. The amount to be paid for the coverage is determined by negotiation and expressed as a percentage of the ceding company's gross net premium income excluding premiums ceded under a primary quota share treaty, unless the quota share reinsurer is also covered by the excess treaty. The rate may vary from .75% on catastrophe covers subject to large retentions up to 15% higher for a treaty providing first excess layer coverage for a company specializing in business having a higher than average loss potential. The rates would of course increase if the limits provided went up.

Cedes A Small Portion

By reinsuring on an excess basis the direct company cedes only a very small portion of its premium volume and on that portion may possibly realize a satisfactory margin of profit.

On the greater volume of premium representing the amount retained, the company realizes the full underwriting profit or loss. This type of treaty works fine as long as a company has a large enough surplus to weather the adverse years when heavy losses may occur under the retention and assumptions there are not too many such years.

One thing is certain, a company will mature much faster with only an excess of loss program than it would with a quota share arrangement. This is true because it must rely much more on its own results. It is also true that unfavorable underwriting results will be borne largely by the company and that its progress backwards can be just as rapid.

Sliding scale rates are quite common on first excesses, and operate much like the sliding scale ceding commission on pro-rata treaties. Instead of flat rate, a minimum and maximum rate is negotiated subject to a provisional reporting rate adjustable on loss experience, plus a loading of 10 to 40% for reinsurers expenses. This sounds like a guaranteed profit arrangement and it might be if losses were not often heavy enough to put the rate developed on the loss experience in excess of the maximum rate. If a rate in excess of the maximum rate is developed, the loading may not benefit the reinsurer enough to keep him loss free.

Regardless of the type of contract ultimately arranged, it is well to remember that reinsurance is a partnership and the silent partner does expect to make a profit.

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Urges Freer Auto Rating Climate To Replace Procrustean Philosophy

A freer rating climate, in which automobile insurers could exercise some judgment in individual risk rate determination, would better serve the public, provide more equitable premiums and a healthier competitive atmosphere, Dudley M. Pruitt, president of Casualty Actuarial Society, declared at the organization's annual meeting in Chicago.

Mr. Pruitt likened the present competitive struggle in the automobile business, featuring various merit rating plans and a variety of other classification manifestations, to St. Vitus Dance, the hysterical dancing mania which afflicted Germany after the Black Death plague in the fourteenth century.

"For several long years our business has had the insurance equivalent of the plague," he said. "Many of us have been suffering severe underwriting losses in the private passenger lines; we have appealed to higher authority for rate relief over and over again and have been rebuffed; and just as the picture begins to look clearer, just as the rate situation seems to be brightening, we begin whirling and jiggling, of profit, hopping and prancing in a maniacal, competitive dance of policy forms and rating methods."

He noted that various merit rating plans based on the concept that good drivers should not have to share in the losses caused by the "poor drivers" have received considerable favorable comment. He said criticism of such a plan attacks its actuarial foundations, on the one hand, and that any attempt to separate those who have accidents from those who don't breaks down the principle that insurance is a pooling of potential losses and thus does violence to the mathematical science of insurance.

Crux Lies In Statutes

The crux of the problem, he said, lies in the statutes which properly assert that rates shall not be excessive, inadequate or unfairly discriminatory. In the abstract these three principles are ideal; in their specific administration, however, they are far too broad and indeterminate. "How can anyone know truly that a given rate

for a given risk is neither excessive, nor inadequate, nor unfairly discriminatory?" he asked.

Because insurance people are so firmly committed to the regulation of rates rather than the supervision of their administration, he said they find themselves taking an "unrealistic and essentially Procrustean approach to rating philosophy." They imagine that

all risks can be fitted into a limited number of specific classifications and that by merely fitting risks to a definition which describes their tangible attributes they can make them more homogeneous.

This "is at times in direct conflict with the clear exercise of experience and judgment," he maintained. "Our classifications are broad bands of hazard; each one with a wide spectrum of good and bad risks. They overlap to the point where the best of the worst classification produces a lower cost than the worst of the best classifica-

tion. Under our present rating concept the only discrimination allowed . . . (an insurer) . . . between the best and the worst within the same rate group, or even between the better and the worse is by selection . . . In the main it is pure underwriting selection on the basis of intangibles that places a risk without accident or conviction records in the assigned risk plan."

Mr. Pruitt said he could see no fundamental reason why discrimination by selection should be considered so-

(CONTINUED ON PAGE 30)



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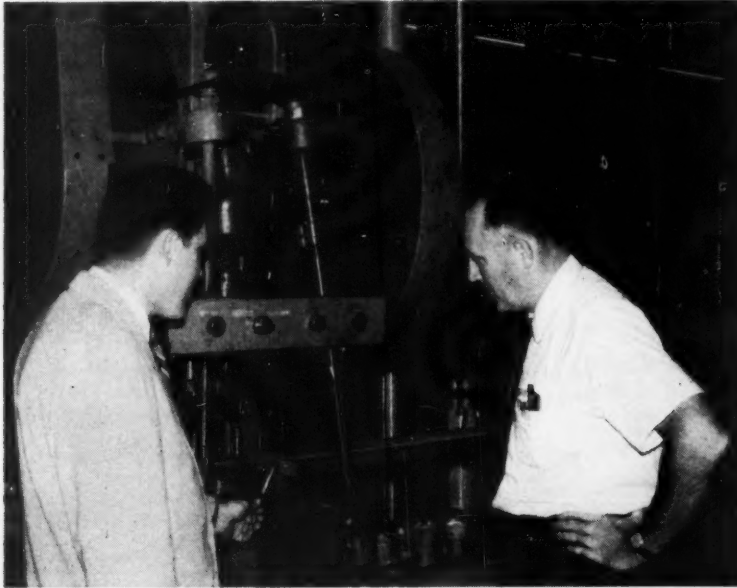
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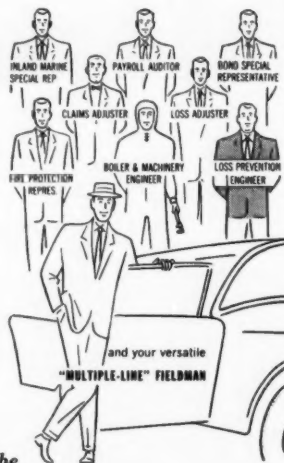
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Conventions

Dec. 27-29, American Assn. of University Teachers of Insurance, annual, Washington, D. C.

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- Jan. 28-30, Federation of Insurance Counsel, mid-winter officers meeting, Mountain Shadows resort, Scottsdale, Ariz.
- Feb. 4-5, Conference of Mutual Casualty Companies, fire meeting, Conrad Hilton Hotel, Chicago.
- Feb. 15, Insurance Economics Society, executive committee, Drake Hotel, Chicago.
- Feb. 17-19, Michigan agents, midyear, Sheraton Cadillac Hotel, Detroit.
- Feb. 18-20, Texas mutual agents, midyear, Commodore Perry Hotel, Austin.
- Feb. 22, West Virginia I-Day, Daniel Boone Hotel, Charleston.
- Feb. 22-24, National Assn. of Surety Bond Producers, annual, Boca Raton Hotel, Boca Raton, Fla.
- March 3-4, Washington agents, midyear, Marcus Whitman Hotel, Walla Walla.
- March 10-11, Conference of Mutual Casualty Companies, underwriting meeting, Conrad Hilton Hotel, Chicago.
- March 10-12, Tri State mutual agents of Pennsylvania, Maryland and Delaware, annual, Pittsburgh Hilton Hotel, Pittsburgh.
- March 13, New Jersey agents, midyear, Stacy Trent Hotel, Trenton.
- March 17-18, Ohio mutual agents, annual, Manger Hotel, Cleveland.
- March 27-29, National Assn. of Insurance Agents, Southern territorial conference, Arlington Hotel, Hot Springs, Ark.
- March 30-31, Pacific Insurance & Surety Conference, annual, Riviera Hotel, Palm Springs.
- April 1, Pacific Coast Advisory Assn., annual, Riviera Hotel, Palm Springs.
- April 6, New Hampshire agents, midyear, Manchester Country Club, Manchester.
- April 7-8, National Assn. of Casualty & Surety Agents, midyear, St. Anthony Hotel, San Antonio.
- April 10-12, Mississippi mutual agents, annual, Buena Vista Hotel, Biloxi.
- April 23-27, National Assn. of Insurance Agents — National Board of State Directors, midyear, and Midwest territorial conference, Netherland Hilton Hotel, Cincinnati.
- April 24-26, Florida mutual agents, annual, Fort Harrison Hotel, Clearwater.
- April 27, Insurance Brokers' Assn. of State of New York, annual luncheon, Pierre Hotel, New York City.
- May 1-3, Iowa agents, annual, Blackhawk Hotel, Davenport.
- May 2-3, Minnesota mutual agents, midyear, Pick-Nicollet Hotel, Minneapolis.
- May 5-6, Conference of Mutual Casualty Companies, claims meeting, Conrad Hilton Hotel, Chicago.
- May 8-10, Alabama agents, annual, Stafford Hotel, Tuscaloosa.
- May 8-10, Pennsylvania agents, annual, Hotel Hershey, Hershey.
- May 9, National Assn. of Mutual Casualty Companies, annual, Edgewater Beach Hotel, Chicago.
- May 9-11, American Mutual Insurance Alliance, annual, Edgewater Beach Hotel, Chicago.
- May 9-11, National Assn. of Independent Insurance Adjusters, annual, Broadmoor Hotel, Colorado Springs.
- May 9-12, National Assn. of Insurance Brokers, annual, Ambassador Hotel, Chicago.
- May 10, Assn. of Casualty & Surety Companies, annual, New York.
- May 12, National Independent Statistical Service, annual, La Salle Hotel, Chicago.
- May 13-14, Oklahoma agents, annual, Mayo Hotel, Tulsa.
- May 14-16, New York agents, annual, Concord Hotel, Kiamasha Lake.
- May 15-17, Virginia & District of Columbia mutual agents, annual, Shoreham Hotel, Washington, D. C.
- May 15-18, North Carolina agents, annual, Carolina Hotel, Pinehurst.
- May 16, Vermont agents, spring meeting, Woodstock Inn, Woodstock.
- May 16-18, Health Insurance Assn., annual, Statler Hilton Hotel, Dallas.
- May 16-18, Insurance Accounting & Statistical Assn., annual, Sherman Hotel, Chicago.
- May 17-18, Illinois Bureau of Casualty Insurers, annual, St. Nicholas Hotel, Springfield.
- May 19-20, Arkansas agents, annual, Arlington Hotel, Hot Springs.
- May 19-21, Texas agents, annual, Austin Hotel, Austin.
- May 25-27, National Assn. of Independent Insurers, workshop, Jack Tar Hotel, San Francisco.
- May 26, National Board of Fire Underwriters, annual, Commodore Hotel, New York.
- May 28-June 1, American Assn. of Managing General Agents, annual, Sea Island, Ga.
- May 30-June 3, National Assn. of Insurance Commissioners, annual, Fairmont Hotel, San Francisco.
- June 9-11, Florida agents, annual, Fontainebleau Hotel, Miami Beach.
- June 12-15, Conference of Mutual Casualty Companies, management conference, Park Palace Hotel, Traverse City, Mich.

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Reviews 1959 N. Y. WC Verdicts; Cites Cases Involving Emotions, Occupations

(CONTINUED FROM PAGE 2)

attitude that a condition which could be the result of an occupational disease should be found to be occupational whether or not there is any underlying pathology.

Tuberculosis Reactivated

In Bazzini vs Washburn Wire Co., a board panel found that inhalation of fumes produced an irritative bronchitis which activated a dormant tuberculosis. The appellate division in affirming this finding said: "In this case claimant's disability is not caused solely by the aggravation of a condition which is not occupational in nature. The board has found that the claimant contracted irritative bronchitis, an occupational disease, because of a distinctive feature of claimant's work, and such disease is the thing which activated the tuberculosis, so that both are linked to his employment."

Mr. Edwards said that in the case of Goldberg vs Conversions & Surveys Inc., the appellate division reminded a board panel that alternative findings in its decision was neither warranted nor justified. Here tuberculosis was claimed to have been activated and accelerated by inhalation of fumes. The appellate division, however, said it could not be justly found that the claimant's basic tuberculosis condition was occupational in character, and that it previously had been authoritatively held that the aggravation of a condition not occupational in nature is not occupational disease within the meaning of the law.

Special Funds

Mr. Edwards said that the growing importance of special funds, particularly in claim matters affecting the reimbursement provisions of the law, is a matter of grave concern to those interested in maintenance of private enterprise in workmen's compensation. The special funds and their applicability are also increasingly occupying the attention of the courts.

The question of timely filing by an employer or its insurer for reimbursement out of the second injury fund was considered in Burch vs Lynn & Hawkins. Here, the employee sustained a back injury in March, 1928. The case was closed on the basis of a lump sum settlement in November, 1950. At that time, a medical finding of permanent partial disability was made by the state examiner. In March, 1953, the claim was reopened, and further awards were made. In April, 1956, a request for reimbursement was filed by the employer. In February, 1958, the board made a determination of permanent partial disability and discharged the special fund on the theory that the request of reimbursement was not timely filed.

The court has held that the board was incorrect in its dismissal of the special fund. The court stated that although the statute requires filing within 101 weeks, or, in the case of reopening, no later than a determination of permanency, there is nothing in the statute requiring filing of a form within 101 weeks after reopening. Even though the state examining physician found a permanent partial disability in 1950, the court held that the board physician's findings at that time of permanent partial disability were not the board's determination. No further appeals are contemplated.

Case Appealed

A novel issue was presented in Usherson vs Greeley Mills, Mr. Edwards noted. Here, the accident occurred more than seven years prior to the reopening of the claim. More than three years prior to the reopening, the employer paid full wages for a period of disability, but the insurer had reimbursed the employer for such full wages paid within the three years prior to the reopening. The appellate division held that the law defines compensation as the money allowance payable to an employee; that the payment of compensation was actually made when the employer paid full wages, and was therefore made more than three years prior to the reopening. The special fund was held responsible, and it has taken an appeal.

In an era of rising WC rates, the question of the effectiveness, feasibility and advisability of lump sum dispositions becomes of greater importance, Mr. Edwards declared. In Weyzk vs Town of Stafford, the accident occurred in January, 1940. The WC rate was then \$9.23, based on an average weekly wage of \$13.85. In April, 1942 a lump sum of \$3,000 was approved with proration into the future on the basis of \$8 per week. In May, 1954, the case was reopened. On the basis of the original rate of \$9.23 the lump sum would have been expended more than three years prior to the reopening. If the \$8 rate of proration were applicable, the lump sum would not have been expended within the three years. The court concluded that there was no evidence to justify the arbitrarily set rate of \$8, and on this basis returned the case for further consideration.

Course Of Employment

Mr. Edwards discussed Herman vs Greenpoint Barrel & Drum Reconditioning Co. The employer invited the employee to a Christmas party and furnished whiskey. Mr. Herman was carried home and thereafter died of acute alcoholism. The board panel found that the employer in furnishing whiskey was doing so out of good will and also to build employee morale,



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and, by doing so, accepted the risk. The court, however, held that the claimant's excessive drinking was a personal act in no way related to the employment, and that his death was the result of his voluntary conduct. The court, not imbued with the "new psychology of industrial relations," indicated that the law denies the right to compensation when injury is caused solely by intoxication. It was found that the claimant did not sustain an accident within the meaning of the law.

In view of the numerous situations

involving the transportation of workers from one site to another, the case of Guido vs Terra Rube Construction Corp. was significant, Mr. Edwards said. The employee, a resident of Brooklyn, was hired to work on a job near Peekskill. Since the distance was considerable, the employer furnished his workers with the use of his jeep to go to lunch. At lunch time, while the employees were traveling in the jeep to a restaurant, they were involved in an accident and the claimant was killed. The appellate division, in a four to one decision, held that

these circumstances were not sufficient to bring this case within the law, and that the accident did not arise out of and in the course of employment.

In contrast, in Houghton vs Babcock & Wilcox Co., an employee was hired in New York, paid from New York and while still engaged in a training program initiated in New York, was working temporarily in Virginia. There he was residing in temporary living quarters. While driving to work, from these quarters, he was involved in an automobile acci-

dent. It was held that this case should be compensable, on the theory that while working outside of the state on a temporary basis, any reasonable activity which occasions injury is in the course of employment. Mr. Edwards finds it difficult to reconcile the verdicts in the cases involving New York and Virginia locations.

He said that his quotations from decisions were made not merely to clarify the court rulings, but to demonstrate that 1959 has been a year of endeavor on the part of the court to place order and design upon the rulings of the board panels. Recent experience demonstrates that the interests of labor and industry have been carefully considered by the court. He said that his review indicates clearly the necessity for consistent and good administration of the law, with emphasis upon better cooperation by industry and labor in securing and aiding such administration. This burden cannot rest with the court, Mr. Edwards concluded.

Hartford Fire Raises

Two In Dallas Changes

Hartford Fire group has appointed Edward D. Newlin Jr. office manager and Jack W. Mynett director of personnel at the southwestern department in Dallas.

Mr. Newlin has been with the group since 1953 as office manager of Hartford Accident at Pittsburgh. Mr. Mynett joined the group in 1955 and has been office and personnel manager at Dallas.

United Mutual Appoints Russell Administrator

United Mutual of Fort Wayne has appointed William F. Russell administrative officer of the company and the home office agency. He was formerly an examiner of the Indiana department for 10 years.

Hartford Fire Names Four

Hartford Fire has promoted Ralph G. Adcock to superintendent of printing supply and purchasing to succeed Osmond W. Snow who is retiring.

Andrew J. Halloran succeeds Mr. Adcock as supervisor of the home office printing plant and will be assisted by Robert J. Dacey. Rocco R. Sansone is promoted to head of the copy and duplicating unit, Mr. Dacey's former position.

Insurers of Tennessee increased its agency membership by 160 during 1959 to a record 685.



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Problems Solvable, Advantages Notable In Insuring Driver

A. W. Lorenz, president of Insurance Underwriters of Cleveland, writes:

For many years I have tried to promote the idea of insuring individuals rather than automobiles. Your article of Nov. 27 by an unnamed executive does not bring up serious problems or, let us say, problems serious by comparison with the new bureau plan.

In answer to his questions:

1. Provide a line in the policy for owners of automobiles who are members of the family and reside together. Provide a second line for drivers who are not owners and cover them only when not operating cars regularly provided for their use.

2. If the bureau rating plan is workable, this problem is solved.

3. Answered in reply to Question 1.

4. Can't see any more problems than the present bureau plan.

5. Yes. Describe a pleasure type automobile for BI, PDL and medical payments long since has become unnecessary. Younger agents will undoubtedly see the day when they deliver a face sheet supported by only a few underlying policies. Isn't Travelers rapidly working in that direction? Personal survey of all personal lines, supported by policies and paid like rent.

6. None. The police report and the claimant's report should be enough check on the insured's report.

For years, the major companies have relied on new, small companies to experiment instead of maintaining a research bureau. Having been "married" to old line companies for more than 30 years, I can't be happy about their present crucifixion, but only because I am caught in the same trap.

Borem At Pittsburgh For Hartford Accident

Hartford Accident has named Charles T. Borem superintendent of the fidelity and surety department at Pittsburgh. He succeeds Robert L. Holden who has resigned to enter the agency business there.

Mr. Borem, who has been associate superintendent of the fidelity and surety department at Kansas City, joined the company in 1951 at Pittsburgh as a bond claim adjuster. He later served in the agency department and as a bond special agent before his transfer to Kansas City in 1957.

John Nearhood Retiring

John M. Nearhood, for 30 years a hail adjuster and special agent in Minnesota of St. Paul F.&M., is retiring. He joined the company in 1929, acting as a hail adjuster in the summer and hail special agent in the winter.

Hartford Fire Names Bigham For Shaw In Pacific Department

Hartford Fire has named A. Park Shaw Jr., to succeed Milton R. Bigham as assistant manager of the Pacific Coast department.

As reported earlier, Mr. Bigham will go from San Francisco to the home office as vice-president, Feb. 1.

Mr. Shaw joined Hartford Accident in 1946. He later served as underwriter and bond special agent in Massachusetts and in 1950 was named fidelity and surety superintendent at Bridgeport, Conn. He was promoted to assistant manager there in 1956 and since 1958 has been in the home office agency department.

Explains Five Ws Of Selling A&S Coverage

The who, what, why, where and when of successful disability insurance selling was explained at the December meeting of Chicago A&H Assn. by E. E. Ballard, president of All American L.&C.

Prospecting, he said, "is still the No. 1 problem today," and these are the questions the agent asks himself when he starts off in the morning looking for the man who will buy. The agent knows the answer to **whom** he must call on, if he has obtained three referrals from each of his previous clients. This should provide him with all the prospects he will need.

Every agent knows **why** he is going to see a prospect; a man without disability coverage is in for financial despair should he be injured or afflicted.

What the agent calls on the prospect with is an organized sales presentation. This does not mean a canned sales talk. **Where** he interviews his prospect is someplace where they won't be disturbed. The **when**, Mr. Ballard said, is today; disability doesn't always wait for some other time.

These thoughts will put agents on the path to success, Mr. Ballard declared. Agents, of course, will find it easier to implement this success by putting out a little hard work. Then, too, he noted, there is no substitute for enthusiasm.

Portland, Ore., Agents Elect Wagner President

Robert A. Wagner has been elected president of Portland, Ore., Assn. of Insurance Agents. Other new officers are William H. Lilly, vice-president; James M. Campbell, secretary, and Donald E. Reger, reelected treasurer.

Royer In Pa. For N. H.

New Hampshire has appointed John R. Royer Jr. special agent at Philadelphia, where he will assist Ronald E. Grace, state agent. Mr. Royer succeeds Richard T. Bjorn, who has been transferred to Portland, Me.

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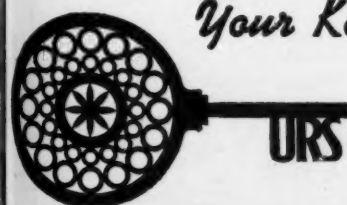
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(CONTINUED FROM PAGE 25)

cially preferable to discrimination by rate. Both can be either fair or unfair. Discrimination by rate, he pointed out, "has the one advantage in that it keeps the market open, and, in general because of competition, causes each risk to pay a premium fairly commensurate with its hazard. Discrimination by selection . . . is the basic cause of the assigned risk program, that great Procrustean leveler where all risks are treated in a most unfairly non-discriminating manner.

"I believe the insurance public would be better served, the premiums charged would be more equitable, and there would be much more healthy and open competitive atmosphere in the private passenger automobile insurance market if . . . (insurers) . . .

were permitted the exercise of some judgment in individual risk rate determination within the framework of over-all state supervision of rating administration," he declared.

He conceded that "there still remains the fear" that unregulated rates in the face of keen competition in the suggested "freer rating climate" would be inadequate and endanger the security of the system. However, under today's operating procedures, an insurer's safety is "irretrievably given over to the judgment of its underwriting organization through the authority to accept and reject. A company can sink into insolvency with tragic speed through bad risk selection even with every rate charged strictly according to manual. Why should we expect our

staffs, which we trust to exercise adequate restraint in risk selection, to cast that restraint to the winds if given some limited discretion in rate assignment?"

Not Selling Out Profession

Mr. Pruitt acknowledged that he was exposing himself to criticism of "selling my actuarial profession down the river." To this he pleaded not guilty. He said it seemed to him that when law is too pervasive the atmosphere breeds shysterism. "The present regulatory climate makes actuarial shysterism a distinct, though, I hope, as yet an unrealized possibility. When the rating laws or their administration in any state is unrealistic or pettifoggish, the temptation is very strong for the actuary to forget his professional obligation which is to seek the best estimate of a future rate, and instead, to become the protagonist who uses his skills to argue his client's cause regardless of merit."

Praises Life Rating Climate

The actuary would find an adequate place in a freer rating climate, Mr. Pruitt said. The freedom which he was suggesting exists in the life insurance business where the actuary does very well. Although the actuarial problems in life insurance differ materially from those in fire and casualty, there is a common need in both fields for rational analysis.

Commenting on current merit rating plans, he said bureau actuaries have come in for a great deal of criticism from both the "fearful and offended." Someday everyone will know whether their creation was good or bad. He said he was sure of one thing now: "Their action has been in the best actuarial tradition; it has been logically developed, honestly presented and saturated with the competitive spirit."

Florida Court Orders Ancillary Receivership In Alabama General Case

Circuit court in Leon County, Fla., has ordered the general receivership created for Alabama General by its order of Dec. 17, 1957, be converted to a receivership in Alabama and that Commissioner Larson be appointed ancillary receiver in Florida.

Appleton & Cox Names Two

W. E. Euler and H. E. Gaillard have been appointed assistant secretaries of Appleton & Cox.

W. E. Myers, vice-president, has been elected a director. F. A. Keller has retired as a director.

North America Must File Package Under Miss. Uniform Law

(CONTINUED FROM PAGE 2)

of June 11, 1958, found that the policy in question contains a substantial amount of fire coverage, although the rates are indivisible. The agency held the proposed filings were in conflict with the fire rating act, which requires fire premiums to be uniform. The commission held that the policies are not a "kind of insurance," subject to both fire and casualty acts, but must be processed under the fire law.

The court said that it did not think that the legislature's intent—in the sentence from the casualty act, on which North America based its case—was to amend or repeal the rate regulatory system for fire premiums. The allowance of a filing of these policies under the casualty act would, in effect, do that.

Further Clarification

Moreover, the court continued North America admittedly based the premiums upon loss experience. That is not the statutory criterion for the fixing of fire rates.

The traditional kinds of insurance, are fire, casualty and marine, with many subdivisions and combinations of subdivisions of each kind. The state commission has the right to require that fire and extended coverage rates shall be set forth separately as an identifiable component. The insurer shall report to the rating bureau each such rate included as a component in the policy; the company shall maintain separate premium and loss statistics upon separated fire and extended coverage portions of such premiums; and the company must pay the customary assessments of the state rating bureau, based on the applicable fire extended coverage portion of such premiums, the court concluded.

N. Y. Board Reports Nov. Losses, Amounts Increased

New York Board reports fire, EC and sprinkler losses for November compared with the same month in 1958 increased in number 12.9% to 635, and increased in amount 18.04% to \$2,247,210. Losses for the first 11 months decreased in number 4.84% to 9,760, but increased in amount 4.33% to \$25,696,282.

Standard Fire of New Jersey has declared an extra dividend of \$1 per share payable Dec. 23 to stockholders of record Dec. 16. This brings to \$3 the total dividend for 1959.

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Clash On Dual Tax Of Stocks, Mutuals

George D. Haskell, director of education of American Mutual Alliance, defended the dual system of taxing stock and mutual fire companies in his statement at a panel discussion held by the House ways and means committee.

The contention that the present system has resulted in discrimination in favor of the mutuals against the stocks is not substantiated by the facts, he contended. If such discrimination existed, it should reveal itself in changes in the relative shares of premium volume going to stocks and mutuals.

Yet, in 1942 the net premium volume of stocks and mutuals combined was \$2,766,814,000, of which the stocks wrote \$2,161,592,000 or 78.2%. In 1957 the combined total was \$11,675,275,000 of which the stocks wrote \$8,640,000 or 74%. The mutual proportion of premium volume increased 42 points over this 15 year period. This small increase is too negligible to have tax significance and could well be due to other factors, Mr. Haskell declared.

He does not believe that the 1% floor tax on gross income is ideal, but contends that the present tax plan produces a more equitable result, over a period of years, than would the application of a tax based upon any total income theory. The present method of taxing mutuals produces a stable income of increasing size to the U. S. Treasury, contrasted with a highly fluctuating income produced by a tax on the total income theory.

Other Views

John W. Scott Jr., New York attorney, maintained that the present dual tax has imposed an appreciably higher tax burden upon stock companies than upon mutuals. He criticized the concepts involved in the tax base of the mutual insurers, since he views this tax as not only a gross income tax, but an unwise one as well.

He noted that from 1943-1957, mutuals accumulated almost \$250 million through underwriting gains. This was not returned to policyholders, and would have been taxable if mutuals were treated in the same way as stock insurers.

S. Alexander Bell, Chicago tax accountant, upheld the present differential tax approach. In the case of mutuals, the tax burden on their income is greater than for other taxpayers because of the minimum tax provided. An appropriate amendment to prevent unreasonable accumulation of surpluses by mutuals and reciprocals should complete the picture of fair imposition upon different segments of the insurance business of their share of the federal tax burden, Mr. Bell concluded.

Hanover Names Belinski, Deffenbaugh In Indiana

Hanover has appointed David L. Deffenbaugh and Victor A. Belinski state agents in Indiana, succeeding George W. Mercier, who is retiring. Mr. Belinski has been with Hanover since 1948 and was special agent in Indiana before his appointment. Mr. Deffenbaugh has been in the Indiana field since 1954 with other companies.

American Casualty Names Huff

American Casualty has appointed Dale A. Huff multiple line field representative for the Sacramento-Stockton, Cal. territory. He will work from the San Francisco branch.

Maryland Casualty Names Webber V-P, Frith Comptroller

Maryland Casualty has elected Gene A. Webber vice-president and Benjamin C. Frith comptroller.

Mr. Webber has been manager of the payroll auditing department for eight years. He joined the company in 1936 as a payroll auditor at Houston and in 1949 was named a field supervisor at the home office. In his new capacity, he will have general administrative supervision of the comptroller's division, as well as several departments, including collection and expense, payroll auditing, file and registry, purchasing and supply, and transcribing.

Mr. Frith, as comptroller, will have charge of the statistical, tabulating and recording departments. He joined the company in 1952 as assistant comptroller.

Louis B. Elfenbein has been appointed manager of the payroll auditing department to succeed Mr. Webber. He has been with the company since 1947.

Royal-Globe N. Y. Staff Gives Christmas Gifts To Hospital Patients

New York office employees of Royal-Globe collected 402 toy dolls and other Christmas gifts which they distributed to 23 hospitals in New York, New Jersey and Pennsylvania.

They raised more than \$1,000 which was used to purchase dolls and dresses which were placed on display in the lounge of the home office for two weeks. Many of the dresses were made in the homes of the employees.

In charge of the collection was Miss Helen Stalls, file supervisor, who initiated the project in her department 20 years ago. The idea spread so that now all departments participate in this kindly work each Christmas.

Rich In Mo., Ia., Neb.

Central Mutual of Van Wert has assigned Robert J. Rich as special agent for Iowa, Missouri, and Nebraska. He has been at the home office for two years, and he will work out of Columbia, Mo.

Nov. Fire Losses Show 9.8% Rise

Fire losses in the U. S. during November amounted to \$78,582,000, according to National Board, an increase of 9.8% over losses in November, 1958.

Losses for the first 11 months of 1959 totaled \$950,629,000, a decrease of 0.5% from the same period in 1958.

Willis Advanced To V-P By Employers Casualty

E. S. Willis has been promoted to vice-president and agency supervisor of Employers Casualty and Employers National. He joined the companies in the underwriting department in 1929 and prior to his appointment was agency supervisor.

Western Pacific Shifts Hagerty

Frank W. Hagerty has been transferred from Portland to the home office underwriting staff of Western Pacific. He will be in charge of the safe-driving program.

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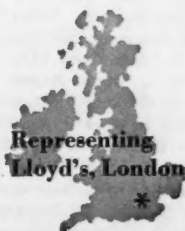
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Editorial Comment

What Function Do Reinsurers Perform?

The well operated reinsurers continue to be repositories of underwriting aptitude, skill and application. Many insurers rely on them for underwriting guidance—as well as for the vital extension of insuring reach that keeps them in business, that enables them to compete with companies 10, 100 and even 1,000 times their size.

Why is it that reinsurers in proportion to their numbers exert so very considerable an influence? They have no magic formula, they do not rely upon a "system." Very likely it is just this, that they don't have a system, they don't rely on averages, they don't have a regulated rate—a rate regulated by law, by the insurance department, or by a bureau.

Reinsurers use averages and study them closely but they don't go to sleep with them. They judge a risk, an insurer, a line on its own character and performance. They make their own rate. Consequently, it has to be correct.

But it is more than these things.

For one, the underwriters in the reinsurance business are its executives. Its executives are its underwriters.

Beyond that, and quite important, perhaps more so than any factor, reinsurers are aware that the heart of intelligent, realistic underwriting is sound information constantly extended and refreshed. Reinsurance executives travel a great deal to where the business is generated, often half their working time or more. They go see their customers, they talk with them, and they listen to them. They know more about what is going on in the insurance business than any other group in it.

Reinsurers constantly are studying, checking and judging the managements of companies with which they do business. That, too, is reflected in the rate they charge for their reinsurance, and the results they have on it.

That this continuous acquisition of information is at the core of underwriting keeps being demonstrated by startlingly convincing events. It is

apparent that the Roylance syndicate at London Lloyd's got into difficulties and expired because it did not know enough about the American business its brokers were giving it. British Commercial went the same way largely for the same reason.

These two incidents do not prove that the whole London market has been vastly overrated for its underwriting skill; or that the American reinsurance market has been vastly underrated. London is still a large, tough, knowledgeable, underwriting competitor in the U. S. and will continue to be—even though the grim examples of insurer desuetude have, among other things, reinforced an underwriting judgment on American business that had become a little too easy for the realities of American risks.

Not all American reinsurers and reinsurance intermediaries are energetically successful in underwriting. A few have made the same mistakes as their English compatriots. Their appetite for premiums has not been disciplined by a corresponding hunger for knowledge about the business they were investigating. But by and large, the major talent in U. S. reinsurance today is just that, and many an insurer gets the very best kind of underwriting guidance "free" with its purchase of coverages from those reinsurers.

But beyond underwriting, one of the little known and seldom talked about services reinsurers render the management of their company clients is on investments. This tends to be solicited by the insurer and not be promoted by the reinsurer. In fact, reinsurers are understandably more reluctant to respond when investment advice is sought than when insurers indicate a need for underwriting help—though it is apparent that more insurers, especially among the smaller ones, need investment advice more and oftener than they ask for it.

As one reinsurer pointed out, insurers too small to afford their own investment talent get their advice from various sources including banks.

But they need advice from a source that understands the peculiarities of the particular insurer's operation. One insurer, for example, found its experience worsening at the same time that the majority of its government bonds, too many of which were of the same yield and maturity, were selling substantially off. Consequently, it could not sell the governments without nicking its surplus, in order to buy a quota share treaty to protect its surplus. Another insurer had to have a \$1 million quota share in order to make a statement but had to sell stocks which it believed were going up (which they did) in order to raise the \$500,000 with which to buy the treaty.

Much of the advice on investments given by the reinsurer consists of pointing out what it, the reinsurer, does in order to meet its situation. However, even here, the reinsurer is careful to point out that its situation is not now and may not be in the future the same as that of the insurer.

Of course, reinsurers long have been advisers to primary companies, at the request of the latter, on a variety of management matters only indirectly related to underwriting, if at all. Underwriting is not the only problem insurers have, and because reinsurance executives spend so much of the time out where problems arise and solutions are reached, they know most of the ways companies get into trouble and many of the ways they get out. This service, too, comes with the reinsurance. Very often, it is worth more than the premium.—K.O.F.

Deaths

ROY W. CARLSTROM, 50, fire engineer at Minneapolis for Hartford Fire, died there of a heart attack.

THOMAS W. MUIR, 66, partner of the Watkins, Muir & Ringhols agency of Salt Lake City, died.

H. SAM HOYT, 69, retired local agent at Creston, Ia., died there of a heart attack.

PAUL V. BLACK, 57, local agent at Boise, Ida., died there after a brief illness. For a number of years he was safety engineer for the Idaho department.

BERT E. GREGORY Sr., 83, who operated an agency at Denver until his retirement last year, died there.

MYRON E. SMITH, 59, manager of State Farm Mutual at Salem, Ore., died there.

ROBERT J. BANNER, 70, head of an Ennis, Tex., agency, died.

PERRIN C. COTHRAN, 73, retired vice-president of Phoenix of Hartford, died in the hospital at Hartford after a brief illness. In the early part of his career he had been an inspector for North Carolina Home in North Carolina.

DONALD D. HENRY, 78, died of leukemia. He retired in 1951 after having served as special agent of Commercial Union in St. Louis and as secretary of American Central of St. Louis of the Commercial Union fleet. He moved to St. Louis in 1920, and before that operated an agency at Jefferson City.

Personals

Thomas W. Buckley, educational director of America Fore Loyalty, was honored at a testimonial luncheon at the home office on his 40th anniversary with the organization. Among the guests were J. Victor Herd, chairman and president, and Nicholas Dekker, executive vice-president of America Fore, and Nathan H. Wentworth, executive vice-president of Loyalty. Mr. Buckley joined America Fore in 1919 in the metropolitan department at the home office and was later appointed a special agent in New York City, a position he held for 31 years before being appointed educational director in 1953.

P.A.L. Gets 2,500 Toys From Employees Of Home

Employees of Home contributed 2,500 toys to New York's Police Athletic League. Kenneth E. Black presented the toys at the company's head office.

Deputy Police Commissioner Alexander Aldrich received the gifts as president of P.A.L. He was accompanied by Fey Cjung, aged 9, and Lotus Chin, aged 10, who live in Manhattan's famed Chinatown.

The toys, averaging about one from each Home employee, will be distributed through various precinct stations to be presented to children on Christmas Eve.

This is the eleventh year in which the toys were given by the staff of Home.

Hartford Fire Backs Up Children, Teachers In Christmas Safety Drive

Hartford Fire's three million junior fire marshals conducted a countrywide campaign to prevent Christmas tree fires.

Elementary school children from coast to coast tagged their community's Christmas trees with "Golden Rule for a Happy Yule" tags listing seven ways to protect trees from fire. Tags were distributed to the junior fire marshals by local agents of Hartford Fire.

School teachers also received suggestions for classroom activities relating to fire prevention at this season.

St. Louis court of the Great & Jovial Order of Cats Meow will hold an open house Dec. 31 at the Cat's Room, 852 Pierce Building.

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May Take Extra Time To Complete Audit Of Michigan Surety

LANSING—Commissioner Blackford, who heads a three-man operating committee of Michigan Surety, indicated last week that an extension beyond 45 days may be required in the postponement of the receivership hearing in circuit court here.

At the start of November, Mr. Blackford was urging the court to grant him a receivership-liquidation petition against Michigan Surety, charging the company was "hopelessly insolvent." After a court hearing, it was decided to have an operating committee run the company until an audit could be made by Joseph Froggatt & Co. of New York, which now has indicated it might require some additional time to complete its work.

"Any decision to extend the postponement (of the receivership hearing) will be up to Judge Coash," Commissioner Blackford said. He added the operating committee was planning a meeting with the judge to describe the status of the company.

Reports have been publicized that considerable business has been lost by Michigan Surety in other states despite the efforts of the operating committee to safeguard existing accounts through reinsurance arrangements and other precautions. Commissioner Blackford just two weeks ago advised the state of Michigan and other Michigan governmental agencies to retain any contracts they had in force with Michigan Surety.

Adam To Become V-P Of Worcester Mutual

John Adam Jr. is joining Worcester Mutual Fire in January as vice-president. He will have charge of production, advertising and public relations. He is currently vice-president in Boston of Central Mutual.



John Adam Jr.

Mr. Adam began his career as an underwriter of Glens Falls at New York City and was later promoted to inland department manager. He joined Central Mutual in 1940 as inland marine eastern field representative. He was promoted to manager at Boston in 1943, and was named New England manager in 1950. He was elected resident vice-president in 1953 and vice-president in 1957.

Mr. Adam is serving as chairman of the public relations committee society of CPCU, and is a member of the committee of interpretation of Nation-Wide Marine Definition.

Wis. CPCUs Elect Irvine

Wisconsin chapter of CPCU has elected T. M. Irvine, American, Milwaukee, president. Howard M. Patton of the Richter-Schroeder agency of Milwaukee is vice-president, and Donald L. Stehr of the Fish & Schulkamp general agency of Madison is secretary-treasurer.

Legislative Probe Of State Fund Suggested By N. Y. Agents' Schwab

Agents have been urged to assist in clipping the wings of New York State Insurance Fund by Arthur L. Schwab, legislative representative of New York State Assn. of Insurance Agents.

Speaking before the annual legislative luncheon of greater Buffalo Assn., Mr. Schwab suggested the time is ripe for a thorough legislative investigation of the fund, its operation, practices and the need for its existence, considering the general belief that the U. S. economy should be based upon private industry.

New York Agents' Assn. is sponsoring legislation to limit direct and aggressive solicitation on the part of the fund.

Mr. Schwab charged that solicitors for the fund provide an advance discount at almost any figure they desire. Later, when a corporation or employer is "on the books," the fund may change the discount and may even charge an extra premium, higher than that charged by private insurers. The fund may use any rate it wishes, thus placing local agents at a disadvantage.

The fund, Mr. Schwab contends, can take a bad risk, from the standpoint of losses, and by charging a high enough rate make it a profitable risk. For a private insurer to do this, it is necessary to file a rate and have it justified and approved, which usually takes so long that insured has no option but to go to the fund, because the law requires coverage.

Phoenix Of Hartford Names Holvik State Agent In S. D.

Bert W. Holvik has been appointed South Dakota state agent of Phoenix of Hartford at Huron. He was formerly special of Royal-Globe at Fargo.

Trinity Names Henslee

Roy E. Henslee has been appointed special agent for the Houston area by Trinity Universal. He will work out of the company's Houston office under the supervision of Harold P. Cabness, district field manager.

Rock Island Agents Elect

Rock Island (Ill.) Assn. of Insurance Agents has elected Morris E. Muhleman president. John D. Burich is the new vice-president, and Morris D. Cook Jr. was reelected secretary-treasurer.

Heineke, Conklin & Schrader Hosts

Heineke, Conklin & Schrader, Chicago law firm which does a large insurance practice, was host last week to a number of clients and their friends in the insurance fraternity at the Union League Club. The holiday gathering has been carried on by Heineke, Conklin & Schrader for about five years.

Newberg, Ore., Assn. of Insurance Agents has elected Robert F. Hurford president and G. Keith Hutchings secretary-treasurer.

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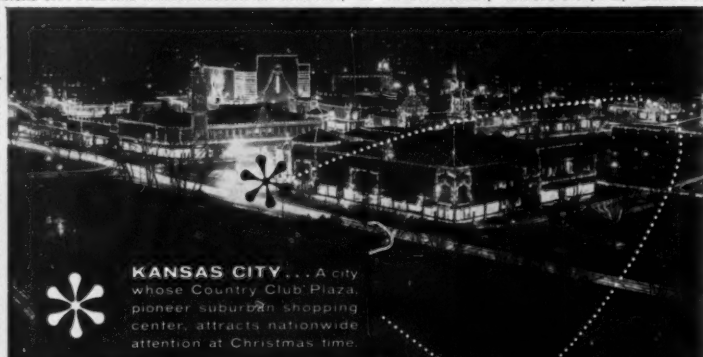
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IMIB Changes Rates, Rules On Coverages

Inland Marine Insurance Bureau has made changes in rates and rules for jewelry, personal furs coverage and other forms, effective Jan. 1. Jewelry rates on amounts over \$10,000 are increased. Former reduced rates on coverage over that amount will no longer apply. Hereafter the rate will be the same for all values in excess of \$5,000. The percentage of increase in any given case will vary, depending on the size of the policy and will be larger as the amount of insurance increases.

The bureau said the loss ratio on policies above \$10,000 has been consistently worse. The \$50 deductible provision has been found unrealistic, and has been withdrawn due to lack of demand.

Personal furs coverage will have a single rate, regardless of amount of insurance, aside from certain increases in metropolitan centers, which have not yet been acted upon. Heretofore, rates nationwide, except for the designated metropolitan centers, have been 55 cents on the first \$50,000 and 45 cents on the excess of that figure. Less than one half of 1% of total premiums has been on the excess policies. Loss ratios outside of the metropolitan centers warranted a modest reduction. Therefore the rate has been fixed as a flat 50 cents per \$100—a drop of just under 10% on more than 99% of the business. There is no change in rates in Cook (Chicago) and Lake counties, Ill., where current rates became effective last June.

Other Changes

Based upon an improved loss ratio for the past five years, the surcharge on camera dealers coverage has been cut from 15 to 7½%. Theatrical floater rates have been hiked 25%.

The bureau pointed out that the marine definition has been amended by most of the states to permit coverage on furniture, fixtures, tenants' improvements and betterments under the physicians and surgeons equipment floater, camera and musical instruments dealers, equipment dealers and dealers forms. Accordingly, a filing has been made to provide for such coverage. This also amends the physicians and surgeons equipment floater by excluding the perils of moth and vermin. The change is necessary because coverage will no longer be confined to medical, surgical and dental equipment and instruments. The physicians and surgeons equipment floater is also extended to provide premises damage, thus making the policy coextensive in this respect with the office contents form.

Two changes have been made in the jewelers block form. One clarifies the

language of the flood exclusion and conforms the language to that used in other inland forms. The second clarifies the "assignment of or change of interest" clause with respect to additional locations.

Another filing continues the suspension of the nuclear exclusion clause in registered mail and first class mail policies until Jan. 1, 1962. All of the changes are now applicable in most of the bureau's jurisdictions.



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Agents Back Bill To Hike Insurer Fees In Delaware

Delaware Assn. of Insurance Agents has approved a legislative proposal to increase insurer fees paid to the state. The bill would double to \$50 the fee for filing every annual or original statement of an insurance company, society or association; double to \$5 the fee for each certificate of authority for an agent; increase from \$10 to \$25 the cost of a certificate of authority for a broker; and double to \$2 the fee for a broker's application and for a temporary license.

Kiddoo Is Okla. Special

Kansas City F.&M. has appointed Charles R. Kiddoo special agent in Oklahoma. He will work out of Tulsa.



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Specific Provisions For Bonding Under Labor Act Given

Secretary of Labor Mitchell has issued a major interpretation of the bonding provisions in the labor-management reporting and disclosure act. The provisions cover personnel who handle funds or other property of any labor organization or "trust in which a labor organization is interested."

In determining the persons who come within this definition, he said, it is clear that Congress intended to provide for the reasonable protection of funds or other property. Such a provision could not insure against every conceivable possibility of loss. He pointed out that Congress was aware of cost considerations and did not intend to require unreasonable, unnecessary or duplicate bonding.

Mr. Mitchell further observed that since the bonds required are for the faithful discharge of a person's duties in handling funds or other property, they need not provide insurance against loss to the same extent as might be required in the case of public official bonds that may cover other contingencies.

The amount of the bond for persons handling funds or other property must be not less than 10% of the funds handled by all occupants of the position in the preceding fiscal year. Since the act defines "person" as including one or more individuals, a group charged with responsibility for handling particular funds may be bonded jointly.

Mr. Mitchell said that schedule bonds may include position schedule as well as name schedule bonds, and may include bonds not now existing

but which may be developed as schedule in form to meet the needs of the act. So long as persons who must be bonded are covered in the required amounts, there is nothing to prevent blanket bonding.

Persons who must be bonded under the act are those who could cause significant loss if they failed to discharge their duties faithfully, while receiving, safekeeping or disbursing funds or property. Under this principle, physical handling of funds or other property may or may not require bonding, depending upon the facts. Persons with general responsibility for the safekeeping of funds or other property would have to be bonded, whether or not they physically handled funds or property.

On the other hand, executive boards and similar bodies which make general policy decisions would not necessarily be handling funds in such a manner as to require a bond. However, where such a board exercises close day-to-day supervision of persons directly charged with handling funds or other property, it might be unreasonable to conclude that the members were not as a group also participating in the handling.

The requirement of the act that labor organizations and their personnel may not have an interest in the bonding company refers to more than mere nominal interest. There must be a financial or influential interest which could affect the objectivity of the action of agents, brokers or surety companies in bonding the union personnel. The law requires the obtaining of bonds at the beginning of the organization's or trust's first fiscal year after the date of approval of the law on Sept. 14, 1959, Mr. Mitchell stated.

Travelers Class Picks Its Own Star Students

Travelers' 83rd multiple line class was attended by 24 agents from the U. S. and Canada. Jasper T. Cacioppi of Thomas F. Mangan agency, Rutland, Vt., was chosen by the class as best insurance salesman.

J. Doyle Corman Jr., Bellefonte, Pa., was named best all around insurance man; and John A. Ford, Waterloo, Ont., was designated the "Man I Would Prefer To Be My Insurance Agent."

Godfrey L. Harrison, Fort Lauderdale, Fla., was picked as the hardest worker; James A. Karber, St. Johns, Mich., as the most improved salesman; Robert I. Lamson, Randolph, Vt., as the best student, and Richard J. Mullen, New York, the man who had made the most progress during the term.

Bosworth agency of Ft. Lauderdale and Keyes Realty Insurance agency of Miami have merged and will operate under the latter title in both cities. Fred F. Bosworth has been named president.

Standard Accident Promotes VanLehn

Standard Accident has promoted Leslie VanLehn to manager of property underwriting at the home office.

Mr. VanLehn began his career in 1929 as an assistant underwriter with New Zealand Ins. Co. In 1942 he joined Pacific States Savings & Loan Assn. as insurance manager. He became an underwriter with Providence-Washington in 1950, and in 1957 was made superintendent of the fire underwriting department.

He joined Standard in 1958 as superintendent fire underwriting department at the company's San Bruno office. In 1958 he was made manager of the department, and retained that position until his recent appointment.

Maltby Leaves Colo., Wyo.

Harry C. Maltby, Great American state agent serving in Colorado and Wyoming for 31 years, has retired. William H. Luke, who has been at the Denver service office for six months, becomes special agent for Colorado and Wyoming.

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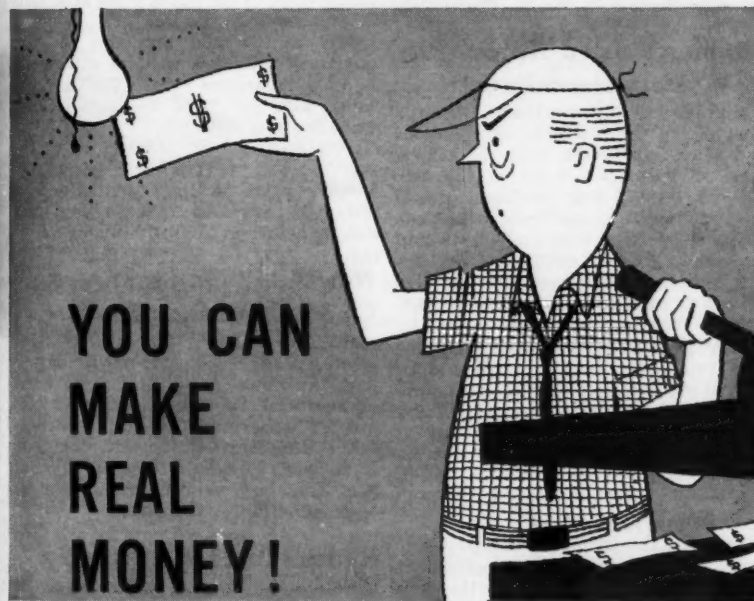
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Year Proves Good For Major Reinsurers; Volume Surges, Losses Are Up Slightly

(CONTINUED FROM PAGE 7)

ful in underwriting and pricing of U. S. reinsurance accommodations.

Allstate has announced its entry into the reinsurance arena. In addition, one other large insurer is asking for reinsurance business, one very large agency insurer is experimenting with reinsurance, another quite large agency company plans to get in the field in 1960, and several smaller primary companies have let the reinsurance brokerage market know that they are interested in reinsurance offerings.

Appreciable Amount Committed

All of this activity emphasizes the fact that a considerable amount of primary insurance money is committed to reinsurance in the U.S. There are several pool arrangements, under which primary insurers operate a reinsurance facility in roughly the same way as they participate in other specialty operations such as oil. Beyond this, a few large insurers have reinsurance divisions. The extent of these operations in terms of premiums and the results in terms of ratios are only partially ascertainable so that the contribution to U.S. reinsurance capacity is not measurable. The facultative market that is constituted by reciprocal interchange of reinsurance among primary insurers also is not measurable.

There might appear to be a technical problem involved when the primary insurer offers reinsurance facilities to insurers with which it is competing for direct business. However, this does not seem to have been a problem for the primary insurers in the reinsurance field which may be explained partly by the fact that there are so very many small insurers. As one reinsurance man put it, he has several hundred insurers as accounts that operate in quite local areas, doing a small volume, but in the aggregate representing a considerable volume. The volume of these insurers is increasing, in proportion perhaps to the same extent as that of many larger insurers.

Increased Competition Due

Undoubtedly the reinsurance market in the U.S. is due for an increase in competition. This has tended to be the case in the past. The entry of new money in the field usually produces some pencil sharpening and close figuring. Since rates are substantially unregulated in the reinsurance field, there has been the temptation, not always resisted, to bid for business against underwriting judgment with results that are a matter of history.

Yet only those reinsurers that have underwritten realistically and consistently have done well in the field, have stayed in it and have grown. This does not mean that new money, when accompanied by reinsurance underwriting talent, cannot make headway. The market is a reasonably good one today. But underwriting talent is essential, and there is no evidence that reinsurers have too much of it and some evidence that insurers have too little.

As one reinsurer put it, "We are doing better, but only because we are underwriting more carefully and turning down facultative business that is so small the expense eats up the premium. We are also beginning to get some facultative which needs capacity, as opposed to facultative that

simply represents poor business the insurer wants to keep out of its treaties."

For the broker working on larger reinsurance and excess accounts, provision of larger capacity per reinsurer reduces the work load. It has even been suggested that several of the smaller reinsurers that are owned abroad and operated in the U.S. might, without altering present management or operations, put together a pool of some size which would be a real attraction to brokers in the U.S. In addition to giving them a chance to compete for business that is being reinsured for capacity and not underwriting reasons, this could enable them to reduce expenses somewhat.

Advantages Of A&S Sales For Agents In New York Shown By Warren R. Behm

Reasons for increasing sales of accident and sickness insurance in New York were given to Richmond County Assn. of Insurance Agents by Warren R. Behm, A&H department underwriting manager of American Casualty.

Speaking at Staten Island, N. Y., Mr. Behm noted that A&S commissions are higher than on casualty lines generally; the New York Metcalf law works to the producers' advantage; and the Forand bill threatens to extend social security benefits to older aged, without reaching millions of persons not covered by social security.

Apart from higher commissions, A&S business presents an excellent loss ratio if applicants are properly screened, and also insurer sales literature assists the agent without his having to refer to cumbersome manuals, Mr. Behm pointed out.

The Metcalf law works to the advantage of the salesman, he said, in that it provides insured privilege of a 10-day look at the coverage before buying; requires 30 days' notice of non-renewal, and cancellation is limited to the first 90 days on policies which do provide for cancellation.

Nationwide Mutual Adds Three A&S Policies

Nationwide Mutual has introduced three A&S contracts, including a guaranteed renewable senior citizen policy for persons over 65.

The other two policies are the budgetmaster hospital and surgical expense policy, an individual or family contract, and the overhead expense disability policy, for business and professional people.

The senior citizen policy provides up to \$10 per day hospital confinement or up to \$5 per day in a nursing home, subject to a combined maximum of \$300. In addition, the policy provides a hospital miscellaneous expense benefit which pays 100% of the first \$100 plus 80% of the next \$250. It also contains a \$200 surgical schedule, a \$50 out-patient benefit and provides for \$3 per day in hospital medical expenses. The policy is to be issued at a monthly premium of \$7.65 for both men and women.

The budgetmaster provides a 31-day hospital benefit with 7½ times daily room coverage for miscellaneous expenses and 7½ times for maternity cases. It is issued with daily room benefits from \$8 to \$20. A \$200 surgi-

cal schedule is effective when the daily room benefit is \$8, \$10, or \$20. The policy contains an emergency out-patient expense benefit and a \$7,500 specified disease benefit. Under the family plan, children are covered from age 30 days until age 21, or until they are married, whichever occurs first.

The overhead expense disability policy provides a 15-month A&S indemnity with either a 14 or 30-day waiting period. The policy is available to self-employed business or professional people actively engaged in their occupations. It is intended to cover up to 80% of the overhead expenses of the insured's business or profession in the event of the insured's illness.

Arkansas AR Plan Office To Move To Little Rock

LITTLE ROCK—Beginning Jan. 1, 1960, the office of the Arkansas Automobile Assigned Risk Plan will be located in Little Rock at 309 Center Street and will be under the management of R. L. Hoffman, who also heads the compensation rating office and manages the workmen's compensation assigned risk pool, according to Commissioner Combs. Heretofore the office has been located in St. Louis.

The move is to expedite the handling of assignments and the administration of the plan. In his statement, Mr. Combs reminded agents to submit all applications in duplicate, with all questions answered. The application must be notarized and be accompanied by applicant's certified check for the deposit or with a check of a licensed agent with his license number attached, he said. Agents were warned against sending in cash with applications, since the assigned risk manager cannot be responsible for its safe arrival nor does he have facilities for its handling.

Fireman's Fund Names Ray In Western Department

William M. Ray has been appointed manager of the research, development and sales unit in the western department of Fireman's Fund at Chicago. He has been acting manager of the unit. He began in insurance with Tennessee Inspection Bureau in 1948 and joined the Fund in 1950 as a fire special agent in Tennessee. He went to Wisconsin in the same capacity in 1951 and in 1953 went to Ohio, where he assumed responsibility for fire and marine production in the northwestern part of the state. In 1956 he was transferred to the western department and served as fire agency superintendent before being assigned to the research, development and sales unit.

Kreuzkamp Joins A&A.

Paul J. Kreuzkamp has joined Alexander & Alexander as vice-president of the marine department. He will handle ocean hull business. All other marine operations will continue to be supervised by Lester W. Torres, vice-president-marine.

A former vice-president of the John F. Curry agency, Mr. Kreuzkamp has been in insurance since 1938.

Sues Milwaukee Mutual

Leonard A. Wolf of St. Paul, Minnesota director of Market Men's Mutual, of Milwaukee, has filed an action against the company management for breach of contract. He also is suing for unpaid commissions, and is charging that the management, through an illegal conspiracy, wrongfully converted the assets of Market Men's Mutual which belonged to him and other members of the company.

Non-Resident Law Booklet Off Press

A new and revised edition of "Non-Resident Agency, Brokerage and Surplus Line Laws" has been published by the National Underwriter Co. This biennial compilation by the editors of the Fire, Casualty & Surety Bulletin provides the information needed to handle insurance in a state other than the user's own.

Under 11 uniform headings, the 54 page booklet shows the requirements of all states, Puerto Rico and the District of Columbia. Subjects covered are non-resident license requirements, including procedure and fees, counter-signature requirements, including exceptions as to coverages, types of insurers, etc., restrictions on payment or division of commissions and reciprocal and retaliatory laws. There is a similar analysis of the surplus line laws of each state. Statutory provisions, court decisions, attorney-general opinions and insurance department rulings are cited wherever applicable.

The booklet appeared first in 1941 and has been revised every odd-numbered year since then, thus reflecting legislative changes and other developments. The single copy price is \$1.50, with quantity prices quoted on request. Orders may be sent to the National Underwriter Co., 420 East Fourth Street, Cincinnati 2, or to any branch office of the company.

Nw National Raises Dividend, Has Extra

Directors of Northwestern National have raised the quarterly dividend from 60 cents to 75 cents a share and have declared an extra dividend of 35 cents. Both dividends are payable Dec. 31 to stock of record Dec. 21.

It is anticipated that the 75 cent quarterly dividend will be continued, to make an annual rate of \$3. The 1959 total will be \$2.90 compared with \$2.60 the year before.

President C. D. James said the increase was made possible because of further gains in investment income, although results in underwriting have not yet returned to profitable levels.

New Audit Managers Assn. Of Southern Cal. Elects

R. C. Alamshah, Zurich, has been elected manager of the newly organized Insurance Audit Managers Assn. of Southern California. Other officers are W. L. Deveney, California Inspection Rating Bureau, assistant manager; R. H. Duffy of Atwell, Vogel & Sterling Inc., secretary, and G. A. Jensen of Hale Handlin Co., treasurer.

Rudrud Joins N.D. Agency

Ralph D. Rudrud, state agent in North Dakota for Reliance, has joined the Baker agency of Fargo, N.D. In the business 10 years, he was an adjuster and in the field for Home before going with Reliance.

A&H Men Meet At Saginaw

Tri-City (Saginaw, Bay City, Midland) A&H Assn. heard John Hurth, public relations director of the Michigan department, at the December meeting at Saginaw. He described the department's functions and emphasized the vast scope of the business and the importance of adequate supervision at the state level.

Steckler Co., managing general agents, has moved its New Orleans office to 505 Carondelet Street.

National Bureau To Refile N. M. Rates

National Bureau has advised New Mexico Insurance Board of its "firm agreement" with the order of Dec. 15 which disapproved revised automobile BI rates for territory outside of Bernalillo County following a protest by New Mexico Insurers in the role of aggrieved party.

The agents contended the bureau filing was not representative of actual experience in New Mexico and that, therefore, the agents could act in the role of aggrieved party. They wanted the entire filing for territory one (Bernalillo County), and remainder of state disapproved. The insurance board upheld the commissioner's disapproval of new rates for Bernalillo County and agreed with the agents on the remainder of state.

Fight More Than A Year

The agents have been fighting the bureau filing for more than a year, contending that it was not accurate, statistics were not fully substantiated, and that the increased rates result mainly from judgment factors.

The rates for remainder of state were approved by the commissioner, using the deemer clause, but he disapproved an increase in Bernalillo County and ruled that New Mexico Insurers were not an aggrieved party. The agents won their appeal to the insurance board on every count, so that the bureau filing is now disapproved in all territories and the agents are in the status of aggrieved party.

The bureau states in its letter to the insurance board that its rates were developed in accordance with sound and recognized procedures, but because new experience will be available soon a new filing will include the latest statistics.

Meanwhile, the bureau is reverting to the rates in the remainder of the state which prevailed prior to July 1. These are 4.5% lower than those disapproved, but have a 5 point cut in expense.

Appointments Made by Rain & Hail Bureau

Miles A. Elliff, superintendent of the Kansas-Oklahoma division of Rain & Hail Insurance Bureau, has been transferred to Des Moines as superintendent of the Iowa-Missouri division.

Mr. Elliff has been with the bureau since 1944. He will be replaced in the Kansas-Oklahoma division by E. J. Gay Jr., special agent at Wichita since 1950, who becomes field supervisor.

Gerald L. Bender, a special agent since 1956, becomes field supervisor of the Minnesota-Dakota division at Minneapolis. Robert J. Starr has been assigned to Chicago as field supervisor of the Great Lakes division. He has been special agent in Indiana since 1948 and succeeds R. R. Wilkinson, who is now assistant manager at Chicago.

St. Louis Surety Men Name New Officers

Surety Underwriters Assn. of St. Louis has elected Orville E. Sackett U.S.F.&G. to succeed Wilford A. Bennett of F.&D. Other officers are Joseph M. O'Day, vice-president, and Paul V. Pruess, secretary-treasurer. Installation will be held Jan. 11 at a joint dinner with Casualty Executives Assn. of St. Louis.

America Fore Makes Seven Appointments

John N. Blegen has been advanced from secretary to vice-president of America Fore fire companies. Also advanced were David Gray from secretary to vice-president and Herbert G. Roleke from secretary and general counsel to vice-president and general counsel of the fire companies and Fidelity & Casualty.

Joseph F. Murphy, formerly secretary and counsel of America Fore, has been appointed vice-president and counsel of all America Fore Loyalty companies, and Geoffrey Davey has been named vice-president in addition to secretary of the same companies.

Carroll R. Young, vice-president of America Fore, has been appointed vice-president of the four domestic Loyalty companies.

Francis B. Waderton, who has joined the organization as vice-president of America Fore fire companies and F&C, will be in the financial and investment department. He was formerly with Lord, Abbot & Co., New York investment brokers, as a security analyst.

Hollick, Russell Royal-Globe V-Ps

Royal-Globe has advanced F. Dudley Hollick to vice-president, administration, and Graham L. Russell to vice-president, personnel and public relations, of all companies. They have been secretaries.

Mr. Hollick joined the group in England in 1930. He was transferred to New York in 1947. In 1957 he was made manager of the administration division and later that year was appointed secretary. He will continue to have executive charge of the departments of methods and planning, office administration and production research.

Mr. Russell joined Royal-Globe in 1946 as superintendent of personnel. He was made manager of the personnel and public relations departments in 1952 and secretary later that year. Mr. Russell will continue to have executive charge of the personnel, public relations, education and advertising departments.

Turns Down Bureau Request For More Auto Rate In N. C.

Commissioner Gold of North Carolina quickly rejected a filing for a 19.9% increase in private passenger automobile rates, following a hearing. He indicated he would approve the filing, made by North Carolina Automobile Administrative Office of a 15.2% reduction on commercial vehicles and a 1.1% average increase on garage risks. He gave 30 days notice to file effective dates for the revisions approved.

W. F. Laughlin, manager of the rate office, said that no decision has yet been made to appeal.

The commissioner expressed concern that the filing was based on a single year's experience instead of two years' experience as had been the practice. The revision was the first sought since compulsory automobile insurance took effect in North Carolina in 1958. Mr. Gold also doubted that accident frequency had gone up significantly in recent years, and noted a gap of about \$200 in average incurred and paid claims.

WHO GETS HURT?

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N. J. Surplus Line Probe Prompts Curbs

(CONTINUED FROM PAGE 1)
risks. He said that although this was the first British company to fail in a number of years, it highlighted the need for tighter controls. Following liquidation of British Commercial, his department sent telegrams to every licensed surplus lines broker in New Jersey, requesting an immediate report of all lines placed with that company as well as all pending claims against it. The telegram requested prompt action to notify policyholders and to protect their interests.

Replacement of coverage was accomplished for a majority of the cancelled risks, Mr. Howell said. A preliminary canvass by his department indicated more than 70 claims outstanding against British Commercial, totaling over \$200,000. Mr. Howell said that his department is reviewing the original placement of these risks to determine whether there was full compliance with the laws.

Mr. Crocker has alleged that he replaced British Commercial risks with coverage in Security Ins. Co. of

British West Indies. The department learned that Mr. Crocker was the president and majority stockholder of this company and that it appeared to be hopelessly insolvent. Its only apparent asset was a bank account containing \$4.14.

Mr. Howell stated that both cases involving the issuance of false or improper cover notes had been brought to the attention of the state attorney general's office, which had transmitted them to Brendan T. Byrne prosecutor of Essex county. He added that appropriate proceedings were being instituted against the insurance licenses of all individuals concerned.

Outlines Proposals

In regard to specific statutes amending the surplus lines laws, Mr. Howell said that eight recommendations were basic:

1. The actual policy issued by the unadmitted insurer must be delivered to insured on every surplus line risk.
2. No risks shall be bound unless

and until the surplus lines broker has received formal notice that coverage has actually been effectuated.

3. The surplus lines broker will be obligated to make full and absolute disclosure to insured and his broker at the inception of the risk.

4. Reports submitted to the department should be required to contain more detailed information than is presently required.

5. The present statutory financial requirements for an unadmitted insurer to accept New Jersey surplus lines business must be considerably enlarged.

6. Every surplus lines broker shall be required to keep on file in his office thorough records pertaining to the steps he has taken to ascertain and verify the financial condition of such company.

7. While the law presently requires that the surplus lines broker and the broker submitting the proposed coverage to him make separate diligent effort to place the coverage with admitted companies, the nature of such diligent effort should be spelled out by statute.

8. The \$5,000 surety bond required to be posted by the surplus lines broker is insufficient and should be increased. Commissioner Howell said that while some of these obligations were presently required by the department, clarifying legislation should be enacted spelling them out in clear detail.

Mr. Howell also revealed that his department was studying possible changes in the rating laws to enable licensed insurers to write some of the risks which now go into the surplus lines market.

Hartford Fire Buys Los Angeles General Agency

Dunn & Thompson general agency of Los Angeles has been sold to Hartford Fire group effective Jan. 1.

E. W. Dunn and Field Thompson will join the staff of the southern California offices of Hartford Fire group, but will continue for the present in their offices at 724 South Spring Street. In an announcement mailed to its producers, the general agency stated that business will continue as usual but with the expanded facilities of Hartford group at its disposal.

All business placed through Dunn & Thompson in Wabash Fire & Casualty is being reinsured 100% in Citizens Business written in Northwest Underwriters of the Citizens will continue to be handled as previously.

Dunn & Thompson assumed the title in 1955 with the merger of the general agencies of Ferris & Dunn and Boyle-Thompson Co., both of which had been originally established in Los Angeles in 1925.

Chicago Jury Awards Get Big Boost From \$1.5 Million Verdict

Jury verdicts for \$1,569,400, \$118,000 and \$30,000 added substantially to the total damages awarded in Chicago courts in the period Sept. 1-Dec. 18, according to the compilation of Cook County Jury Verdict Reporter. The \$1.5 million which was awarded in Chapman vs American Mutual Liability was reported in detail last week.

Since Sept. 1, juries in Chicago courts have handed down 99 not guilty findings and 72 findings of guilty in personal injury cases. In addition, there were 17 holdings for plaintiffs in uncontested cases, so that in the aggregate the plaintiffs and defendants are at a standoff in Chicago this fall. Total damages awarded are \$2.9 million on a total demand of \$5.5 million.

Insurers got a \$255,000 return on an earlier case when Judge Lupe in superior court set aside a \$255,000 verdict obtained by James A. Dooley against owners and lessees of the Green Mt. Hotel for a 1955 fire. Mr. Dooley was the attorney who won the \$1.5 million verdict against American Mutual Liability.

Gino Dini, city fireman, won a \$220,000 verdict and the widow of another fireman won \$20,000 from a jury. Judge Lupe granted a motion for dismissal notwithstanding the verdict, holding that "the law is well settled that a fireman while in performance of his duty assumes the risks incident thereto." He also entered a finding that city ordinances allegedly violated by the hotel do not apply to firemen.

Metropolitan of Chicago was the insurance company involved here, as insurer on the hotel's O.L.T. If the verdict had stood, Metropolitan and other insurers would have been reluctant to write O.L.T. because it would have put the entire line under the same legal difficulties as insurers encountered with the Illinois scaffolding act which holds a property owner liable any time a worker falls from or is injured on a scaffold.

Western Conference To Meet

Western Conference of Special Risk Underwriters will hold its annual meeting Jan. 8 at the Bismarck Hotel, Chicago.

WANT ADS

Rates—\$22 per inch per insertion—1 inch minimum—sold in units of half-inches. Limit—40 words per inch. Deadline 4 P.M. Friday of week before publication in Chicago office—175 W. Jackson Blvd. Individuals placing ads are requested to make payment in advance.

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One of the leading aviation companies want Home Office Claims Manager. Insurance aircraft, physical damage and liability. This is a top echelon management position. Remuneration commensurate with ability and background. Reply Box L-21, c/o The National Underwriter Co., 175 W. Jackson Blvd., Chicago 4, Ill.

OPPORTUNITY FOR EXPERIENCED CASUALTY ADJUSTER

Multiple-line stock company requires experienced claims man to service eastern Michigan, operating out of branch office. Our personnel know of this ad. Direct inquiries with complete personal and experience history, and salary expected, to Box L-25, c/o The National Underwriter Co., 175 W. Jackson Blvd., Chicago 4, Ill.

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Progressive multiple line stock direct writer of commercial accounts offers unusual opportunity to proven producer. Desire man 30 to 38 with college and CPCU background. Furnish complete resume self and abbreviated resume wife along with recent photographs. Reply Box L-26, c/o The National Underwriter Co., 175 W. Jackson Blvd., Chicago 4, Ill.

Crop-Hail Manager wanted to appoint agents and service hail writings and manage service office in tobacco area in Eastern States. Experienced fieldman with adjusting experience desired.

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Wanted experienced man with knowledge of trailer financing and insurance to travel mid-west area. Please state experience, education, and salary expected. All replies will be held in confidence. Write Box L-30, c/o The National Underwriter Co., 175 W. Jackson Blvd., Chicago 4, Illinois.

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Union League Review And Forecast Session Is Set For Jan. 15

The Insurance Group of Union League Club of Chicago will conduct its popular annual "review and forecast" session Jan. 15. Five speakers will offer their views of the next 12 months in the fields of insurance supervision, insurance stocks, and life, A&S and property insurance.

Director Joseph Gerber of Illinois will talk on supervision; Levering Cartwright, president Cartwright, Val-leau & Co., stocks; A. N. Guertin, secretary American Life Convention, life; Robert Neal, general manager Health Insurance Assn., A&S, and Vincent S. McKerrow, vice-president reinsur-ance and excess line division Continental Casualty, property.

Roy L. Davis, midwest manager Assn. of Casualty & Surety Companies, chairman of the Insurance Group, who is spending the holidays at his winter home in Arizona, will preside as he has at all of the review and forecast meetings.

Central Michigan (Lansing) Underwriters Assn. heard Gerald Huffman of U.S.F.&G. discuss automobile merit rating at the December meeting.

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Pilling Comments On Need For A Realistic Competitive Outlook

Neville Pilling, U. S. manager of the southern agents, comments on the competitive situation. Pilling observes:

Some agents may not agree that the competitive differential is important. They may argue that the agent's personal concern with the interests of his insured fully justifies this differential. This could be true; but, if it is true, then it is the responsibility of the agent to so persuade the insured.

A very large percentage of agents does not hold this view. The evidence lies in the fact that, when the competitive going gets too rough from the standpoint of price, many agents desert and find themselves a market which will enable them to compete successfully.

Many of these same agents stand up for their associations, most vocally condemn continuous policies, direct-billing, etc., and vote to tell their companies not to participate in any such "share-brained schemes"—meanwhile demanding that their companies loyal support the traditional American agency system. Even though they may state such views publicly, many agents say privately that the continuous policy, with direct billing, is sound to come—and that it offers the local independent agent at least one means of competing successfully.

The majority of stock companies have held to the agents' philosophies in price during the past 15 to 20 years. What is the result? They no longer receive normal share of new business. Continuous defections are taking place in their agency organiza-

tion. Their ability to underwrite competitively is undercut, so that specialized writers have skimmed the cream and desirable business from the top and have grown and expanded amazingly. Argument supporting the old way of doing business is largely academic; the facts speak for themselves much too plainly.

The desirability of consultations between company and agents' associations is often mentioned. I know personally of at least five serious efforts of stock companies to consult with agency organizations to seek their aid and support for programs calculated to place the stock insurer in a more competitive position. Invariably it has developed that no one can or will speak firmly for the agents, and it is impossible for them to reach agreements. I do not mention this critically, but rather as a fact which arises from the somewhat loosely-knit nature of agency organizations.

When it comes to individual consultation with our own agents, the best we have been able to do is to select a representative group and to sound them out in advance of making decisions. We endeavor to do this consistently in each state, and then to form our own judgment as to the course we should adopt in the light of these reactions.

We do not ignore agency problems arising from commission reductions. We do, however, attach great importance to our joint survival.

The rule of progress and survival applies to the independent insurance agent. I honestly think that, if the adoption of a realistic philosophy and viewpoint is postponed much longer, it could lead to his ultimate extinction.

Minn. Blue Cross And Blue Shield Terminate Connection; To Compete

ST. PAUL—Blue Cross and Blue Shield, which have been working together in providing hospitalization and pre-payment medical coverage, have terminated their contract and will become competitors. Blue Cross, owned by a group of hospitals, is prepared to activate a subsidiary, Minnesota Indemnity, to write pre-payment medical-surgical-obstetrical coverage, and Blue Shield, owned by doctors, plans to enter the hospitalization field.

Minnesota Indemnity, although organized five years ago, has never issued a contract.

The formal break is expected to come Dec. 29 at a meeting of Blue Cross directors. The date would allow 30 days notice to subscribers whose contracts end Feb. 1. Blue Cross and Blue Shield, whose working contract terminated Nov. 30, are now cooperating under a temporary agreement through which Blue Cross is handling internal operations, except sales and advertising, for Blue Shield. Both have occupied the same building in St. Paul but have maintained separate claims departments.

"Administrative differences" is one reason given for the parting of the ways. Dr. R. R. Cranmer, executive director of Blue Shield, said the break was due squarely to failure of Blue Cross to agree to expanded medical coverage. The latter wanted to make this optional, while Blue Shield wanted it mandatory. Blue Cross also said expanded service would increase costs while Blue Shield contended it would be merely payment for additional services.

Kemper Becomes Vice-Chairman; 3 Named Senior V-Ps

James S. Kemper Jr. has been elected vice-chairman of Lumbermens Mutual Casualty and American Motorists, and new senior vice-presidents are William H. Heineke, Martin P. Luthy and Chase M. Smith.

Mr. Kemper has been a director and legal consultant of the companies since 1950 and is also a director of another Kemper company, American Manufacturers Mutual.

Mr. Heineke, who joined the organization in 1933 as an auditor, has been manager of the eastern department at Summit, N. J. He is also resident vice-president and director of American Manufacturers and eastern department vice-chairman of the James S. Kemper & Co. agency.

Joined Them In 1928

With the Kemper organization since 1928, Mr. Luthy has been manager of the New England department at Boston since 1942. He is also resident vice-president of American Manufacturers and senior vice-president of Federal Mutual.

Mr. Smith entered insurance in 1911 and after serving with the Illinois department, joined the Kemper group in 1920. He has been general counsel since 1933. His other titles include secretary, general counsel and a director of American Manufacturers and Federal Mutual, general counsel and a director of Fidelity Life Association, and director of Lumbermens Mutual Casualty.

North America To Open New Office At Hartford Jan. 1; Managers Named

North America on Jan. 1 will open a new service office at 80 Farmington Avenue, Hartford Conn., to service western Massachusetts and Connecticut. The new office will take over functions of the office at Springfield, Mass.

Indemnity of North America agents, formerly reporting through Boston, will report to Hartford, which will also take over field operations handled at 410 Asylum Avenue, Hartford.

In Boston, John G. Paine has been named fire manager, joining John Dwinell, casualty manager, and Donald Warren, marine manager.

James E. Hitchcock, fire manager of New England service office, will serve in an advisory capacity until he retires next April.

Managers of the new Hartford office will be George Alspach, fire and marine; Leonard Cummings, Indemnity of North America, and Harry T. Brown, Life of North America.

New England agents will have fire, marine and casualty business serviced from Boston. This represents no change in casualty and marine procedures, but fire will be transferred from Springfield. Processing office functions will still be carried out at Springfield.

General Of Seattle Names Bangert To Surety Post

General of Seattle has appointed Richard E. Bangert assistant surety manager. He has been an assistant vice-president of Seattle First National Bank, and for the past four years has been a general partner in the Foster & Marshall brokerage firm of Seattle.

Allstate Sets Merit Rating Plan For Mo., Ia., And Neb.

Allstate has a new merit rating program—the good driver discount plan—for the states of Missouri, Iowa and Nebraska effective Jan. 1.

Under the plan, eligible adults with five years of driving without a chargeable accident claim will receive the lowest rate. Those with one or more accidents during the five year experience period will receive a higher rate, depending on the number of accidents.

In the regular Allstate rating program which is in use elsewhere and is the basis for the good driver discount plan, more than 125 driver rating classifications are available. They take into account such factors as age of the driver, use of the automobile, mileage driven and general accident experience.

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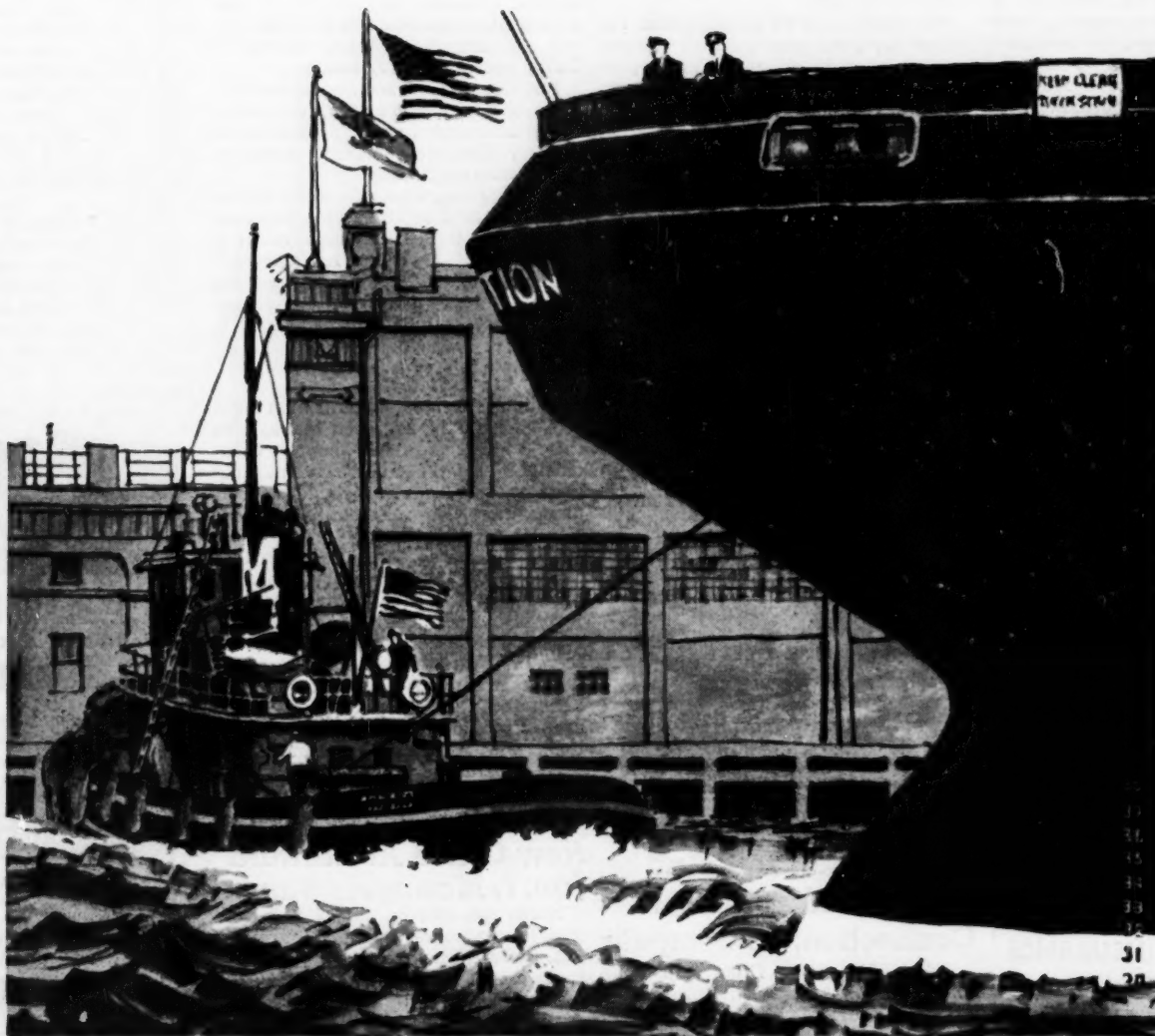
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